

MAR 27 1952

Housing Finance Agency  
Office of the Administrator  
IM/HOU/WP. 11/51  
12 October 1951

Original: FRENCH

ESC

ECONOMIC COMMISSION FOR EUROPE

INDUSTRY AND MATERIALS COMMITTEE

HOUSING SUB-COMMITTEE

Working Party on Programmes and Resources

(Third Session, 17-19 December, 1951)

728.1  
(4)  
1154  
1951

METHODS AND TECHNIQUES OF FINANCING HOUSING IN

VARIOUS EUROPEAN COUNTRIES

Y. Salatin (France)  
Consultant Expert,  
Assisted by Mr. Johansson  
(Sweden), Mr. Pepe (Italy)  
and Mr. Wirz (Switzerland),  
rapporteurs.

The present document has been drawn up by several different rapporteurs and on this account it may occasionally lack homogeneity.

Furthermore, as it was desired to submit the report in advance of the meeting of the Economic Working Party of the Housing Sub-Committee there was no time to revise it in detail. It is also possible that errors have crept in here and there either through the misinterpretation of certain methods of financing, or for some other reason.

It would be helpful if the various experts would submit any corrections required for their respective countries in the form of corrigenda and draft amendments in writing, if possible before 1 December, to enable the report to be put into final shape at the earliest possible date and to prevent any time being lost over the discussion of details at the Working Party's next meeting. Their special attention is drawn to the chapter concerning their own country; it is possible that in some cases the whole chapter may need to be recast.

TABLE OF CONTENTS

INTRODUCTION

PART I - GENERAL CONCLUSIONS EMERGING FROM THE ENQUIRY

<u>Chapter 1</u>	Main problems involved in the financing of housing. . . . .	7
<u>Chapter 2</u>	Present trends. . . . .	19

PART II - COMPARISON OF METHODS USED

<u>Chapter 3</u>	General conditions governing the financing of housing. . . . .	29
<u>Chapter 4</u>	Sources of the capital invested in housing. . . . .	35
<u>Chapter 5</u>	Financial institutions interested in housing. . . . .	43
<u>Chapter 6</u>	General characteristics of real estate loans. . . . .	51
<u>Chapter 7</u>	Assistance by public authorities : General characteristics. . . . .	61
<u>Chapter 8</u>	Methods employed for financing non-profit-making bodies. . . . .	73
<u>Chapter 9</u>	Methods employed for financing the purchase of houses by their occupiers. . . . .	91
<u>Chapter 10</u>	Methods employed for financing the repair and reconstruction of war-damaged buildings. . . . .	99
<u>Chapter 11</u>	Special measures benefiting certain population groups. . . . .	107

PART III - ANALYSIS OF THE METHODS ADOPTED IN THE VARIOUS COUNTRIES

<u>Chapter 12</u>	Germany (West) . . . . .	115
<u>Chapter 13</u>	Austria . . . . .	129
<u>Chapter 14</u>	Belgium . . . . .	135
<u>Chapter 15</u>	Denmark . . . . .	167
<u>Chapter 16</u>	Finland . . . . .	181
<u>Chapter 17</u>	France . . . . .	189
<u>Chapter 18</u>	Italy . . . . .	211
<u>Chapter 19</u>	Norway . . . . .	225
<u>Chapter 20</u>	Netherlands . . . . .	237
<u>Chapter 21</u>	United Kingdom . . . . .	249
<u>Chapter 22</u>	Sweden . . . . .	261
<u>Chapter 23</u>	Switzerland . . . . .	275

Chapter 24 Union of Soviet Socialist Republics

287

ANNEX A - An attempt to compare the construction cost of a working class dwelling unit in different countries (calculated according to various indices).

363

ANNEX B - Amount of assistance provided by the public authorities for the financing of housing in 1949 (preliminary study).

317



## INTRODUCTION

The Housing Sub-Committee of the Economic Commission for Europe has been engaged for some years on a comparative study of the experience acquired by the various European countries in the field of housing construction. Its aim is to provide experts and governments with data to assist them in formulating their policy, while leaving it to them to decide to what extent any particular method, technique or regulations could usefully be applied in their own country in the light of their individual circumstances and conditions.

The present report, which is the outcome of a resolution adopted by the Housing Sub-Committee at its January 1950 session forms part of this work.

Of the factors adversely affecting housing costs today, the cost of financing is a far from negligible one. According to the total expenditure, the current interest rate and the conditions governing the repayment of loans, the sums which the builder may be required to refund by instalments sometimes amount to twice the cost of construction proper or even more. In addition, the financing methods applied in practice may themselves promote or discourage certain trends in the building industry to a greater or lesser degree, thus helping to reduce building costs or on the other hand to restrict building.

The initial purpose of the present report, therefore, is: (1) to give some idea of the financing techniques applied and (2) to ascertain whether certain of them appear to possess greater flexibility and to entail less expense. However, the position in the various countries differs very widely, and it is impossible to obtain a clear grasp of the methods they employ, without taking into consideration their legal and financial structure, the economic conditions peculiar to each of them and the ensuing difficulties. It has therefore been found necessary to devote several chapters to a comparison of the economic situation obtaining in the various countries and of their housing policies. Such comparisons are, however, merely explanatory, no attempt having been made to assess the efficacy of the policies pursued. Nor could this be done in a report of an international character, since the conditions, whether psychological or practical, are too complex.

The report, therefore, has of necessity been confined to an attempt to bring out certain points which seemed to be common to most if not all countries, to stress certain difficulties which appeared to arise in some of them, and to describe the methods employed by a particular country when these seemed to be outstandingly effective or original. In order to provide a clear picture of the relative importance of the techniques applied in individual countries and their mutual interplay, a summary has been given in Part III of the report of the financing methods used in each case.

These methods, while constituting one of the main factors in housing policy, are not the only factor. A mere analysis of them, therefore, can hardly provide an accurate reflection of that policy. It is simply as one of a series of studies covering the various aspects of housing policy that this report may be of value. Moreover, it should always be borne in mind that these various aspects influence each other. In particular, the conditions governing rents and the levels at which they are fixed<sup>(1)</sup> have a considerable effect on financing methods.

Every one of the countries studied has its own rent legislation. These laws differ very widely and their scope also varies; in some countries rents are controlled, while in others one or more free sectors still remain, although in all of them the rents of old houses, which still make up the bulk of house property, appear to be subject to regulation. Furthermore, rent levels not only vary widely from country to country, but often differ within one and the same country according to the particular sector or date of construction. It is not proposed in the present report to make a comparative study of rent legislation or to ascertain what effect existing rent levels and control procedure may have in individual countries on the economic situation or on social conditions, and to what extent that situation or those conditions gave rise to the regulations. Neither has the investigation covered the amount paid in rent; thus no comparison has been made of the proportion of their income which rent represents for families in the various parts of Europe, or of the extent to which the rent covers the annual charges on new

(1) Although, in certain countries, many families own the dwelling in which they live, the average annual amount which people everywhere are prepared to pay for their living accommodation may be said to be basically determined by the rents commonly charged.

houses. However, a point to be noted is that the inadequate rents at present charged - or in certain countries the lowness of the rents which the Government considers can be borne by the population or certain social groups - is one of the chief obstacles, if not the sole obstacle, to the financing of housing at the present time. It is the main reason for financial intervention on the part of the public authorities, a further reason (a secondary one in most countries) being the compensation payable to the owners of house property damaged during the last war. The actual provisions of the rent legislation and normal rent levels also appear to have a bearing on the choice of financing methods. One initial conclusion which the survey brings out is that financing policy is closely linked with rent policy, which explains why in some countries the same government department is responsible for handling both problems.

PART I

GENERAL CONCLUSIONS

EMERGING FROM THE ENQUIRY

---

## Chapter 1

### MAIN PROBLEMS INVOLVED IN THE FINANCING OF HOUSING

In every country, there are two main problems influencing the policy adopted for financing housing: the amount of annual financial charges and the coverage of risks. In some cases, the lack of savings in particular gives rise to further problems.

#### Amount of annual financial charges

In most countries, the sums set aside each year by the occupants of newly built dwellings to pay for their living accommodation exceed the expense of upkeep, rates and taxes and general management costs. The remainder after payment of these sums, however, is usually insufficient, without the aid of the public authorities, to meet the annual interest and amortization charges on the building capital. Such charges depend on the total capital, the rate of interest and the conditions and duration of amortization.

The amount of capital required depends on building costs. Efforts to reduce those costs are therefore being made in the various countries concerned.

A reduction in cost may be brought about in the first place by lowering the standard of the dwellings in respect of quality of construction, surface area of premises, or amount of fittings. While in this connection conditions are laid down everywhere for the grant of assistance by the public authorities, there are very few countries in which any lowering of the average standard of housing is attempted, although possibly in countries where the crisis is particularly acute, standards less high than those at present in force might well be adopted as a provisional measure. Practically the only examples of this today are found in Germany (Western Zone) where the limits laid down for the grant of State loans appear to be narrower than before the war, and in the Netherlands, where for the time being, encouragement is given to the construction of dwellings intended for

single families but temporarily divided up to house two families. Since one of the main purposes of the present housing policy is to provide the population with better accommodation, the public authorities do not as a rule adopt such a course and the supervision they exercise in connexion with the advantages they offer is designed as much to prevent the lowering of recognized standards as to see that they are not exceeded. In fact one of the reasons which in some countries has apparently led public authorities to refuse assistance to builders generally or even to persons wishing to build their own houses, has been the fear that the dwellings might not always come up to adequate housing standards.

As regards the financing methods employed in the various countries, the desire to reduce construction costs is shown by three different - sometimes conflicting, sometimes complementary - tendencies. The first of those tendencies involves a high degree of control, the authorities exercising close supervision even over the details of the actual operations connected with the building of houses for which State aid is provided, and endeavouring to influence directly the cost of construction. The result of this tendency is usually to make State-aid proportionate to the exact cost, and at the same time virtually to restrict this aid to public bodies, or to non-profit-making bodies closely controlled by the State. The second tendency is in the opposite direction, namely, to assist builders mainly investing their own capital, in other words to encourage private enterprise. In this case the self-interest of the owner is a strong inducement to reduce costs, and one which does not apply when building operations are in the hands of public or semi-public bodies deriving almost the whole of their financial resources from loans and directed by individuals not personally involved. Indeed it would actually appear to be with the object of encouraging owners to aim at reducing costs that subsidies granted by the public authorities are sometimes in the nature of a lump sum grant, irrespective of the actual cost of any particular building. The tendency in one or the other direction may be more or less marked according to the country. Moreover, the procedure followed is sometimes contradictory, the desire to reduce cost conflicting with the endeavour to prevent any lowering of housing standards. At any rate, wherever the assistance is comprehensive and leaves the builder no risk (or opportunity for making a profit)

direct intervention by the State in the control of building operations would appear to be inescapable over a longish period. Finally, in all countries, though in varying degrees, a third tendency is discernible in the sphere of financing - the special encouragement of bodies interested in group building, and often enough in practice, the special encouragement of fairly large-scale undertakings. On the other hand, it would appear that except in the Netherlands, special arrangements for economy bonuses payable to builders are seldom to be found.

Apart from building costs proper, the cost of a dwelling includes both the price of the land and the financial charges. The problems connected with the search for available ground and land speculation, are matters of concern in most countries. They appear to be dealt with most satisfactorily in places where the local authorities own considerable land and pursue a policy of land allocation by which they are able not only to make sites available to builders at reasonable prices, but in addition to play a part in stabilising the market. The financial charges normally involved in a building operation (purchase of land, loan charges etc.) are by no means negligible. Including rates and taxes, they often amount to 10% or even more of the total costs, to say nothing of the charges which cannot be expressed in figures (time taken over formalities, etc.). It ought to be possible to reduce these in certain countries, by improving the mortgage system for example.

While the annual financial charges are proportionate to the amount of capital invested in a building operation, they consist essentially of the interest on that capital, representing either the funds invested by the owner himself, or loans. The contribution of capital by the builder is as a rule very small nowadays, though it is encouraged in some countries, which apparently explains why the public authorities give assistance to private building. An owner investing his own capital will generally be prepared to accept a rate of interest lower than the general market rate. Indeed the question arises whether from a strictly financial standpoint the effect of the present tendency<sup>(1)</sup> in many countries for building to be carried out by public bodies or non-profit-making

---

(1) The causes underlying this tendency are discussed in the later chapters.

concerns with capital consisting almost entirely of loans, is not in practice to increase the amount payable as interest on capital, or to involve the public authorities in greater expense.

The rate of interest of real estate loans<sup>(1)</sup> depends primarily on the general money market rate. There are wide variations, up to 200% (3%, 3½% to 8% and 10%) between the rates current on the money markets in the various countries. No doubt the difference between the highest and lowest rate of annual charges<sup>(2)</sup> payable by house-owners is often less, according to the term of the loan, but it would appear to amount to at least 100% in the case of private loans. Hence, the general interest-rate policy has an overriding influence on housing policy and on the extent of assistance the State is likely to provide in one form or another (reduced rate of interest on State loans, subsidies etc.).

In a number of countries, however, the interest rates on real estate loans (disregarding State aid), even on first mortgage, are higher than the market rates. This is an anomaly explainable only by defects in the mortgage system or in the system employed in the banking houses specialising in real estate loans. In addition, second mortgage loans differ in extent and rate of interest from one country to another. Again, States occasionally ask for a first mortgage against the loans they make to public organs or private bodies closely under their control, thus preventing them from obtaining supplementary loans at reasonable rates. Interested governments should give special consideration to these various points since a different of 1% in the interest rate means in practice that owners - or

---

(1) For State loans, interest rates are generally lower than for other loans, the former being the usual manner in which financial assistance is given by the public authorities. The cost of such assistance naturally depends on the amount of the reduction, in other words on the rate of interest current on the market.

(2) Where annual charges are fixed (interest plus amortization).



the authorities where they make up the difference - have to pay in all an additional 10% - 60% of the amount of the loan, according to the term for which it is granted.<sup>(1)</sup>

In several countries, however, systems have been worked out providing for less costly means of financing. The most widespread of these systems is the use (either direct or indirect) of savings bank funds. Possible misgivings as to the drawbacks of making partial use in building of short-term investments do not appear to have been confirmed by the experience of countries in which the practice has been in force for many years. Use is also made occasionally of funds of the Bank of issue, but this practice is less common, and is invariably restricted to short- or medium-term borrowing.

The policy of States has been to make up the difference between the normal interest rate on real-estate loans and the rate paid by owner/builders. Various schemes have been tried: direct State loans to builders covering almost the entire capital, - e.g. in the United Kingdom, Norway and France (for low rental dwellings); supplementary loans of smaller amounts, but with interest rates so calculated that in the aggregate the builder pays a reduced rate of interest on all his loans (Germany, Denmark, Sweden); State rebates to bring down the interest rate; subsidies in the form of annual payments in which the amount is not proportionate to the interest rate on loans. Even capital subsidies to some extent fulfil a similar purpose.

The term and conditions of repayment of loans, whether public or private, differ widely from one country to another.

Logically, it would seem desirable for the writing-off of loans to keep pace with the normal depreciation of the houses. But it would appear that except in

---

(1) It may also be mentioned incidentally that the interest rate on loans during building operations is generally higher than that on loans made once the house is finished. The problem of financing, as it affects both contractors and owner/builders while operations are in progress, calls for a separate study.

those countries where wooden buildings are still fairly common, the loan term is based on other reasons. The probable lifetime of a house is of course often a difficult matter to determine. Technically, some houses will last more or less indefinitely, being renewed piecemeal as the occasion for repairs arises. On the other hand, changing social conditions often involve the demolition of houses or make them for practical purposes unusable without thorough renovation amounting almost to reconstruction. No systematic overall study seems to have been made with a view to assessing in any given instance what would appear to be the proper rate of amortization from a technical or economic standpoint. Yet although any such study would tend to be somewhat theoretical, it would nevertheless provide a preliminary basis, almost entirely lacking today, for determining the ideal length of the amortization period.

The general trend at present appears to be to shorten the term in the case of private loans, particularly after the monetary upheavals of the last few years, but to extend it in the case of State loans, with a view to reducing the annual charges payable by owners.

In the same way, amortization arrangements, for all their variety, show a general tendency to reduce the present burden at the expense of the future, by lowering the amortization rate of State loans during the first few years, and at the same time reducing the interest, often simultaneously. This is a very clear indication that States harbour a hope that the present maladjustment may be rectified in the future, e.g. by a gradual raising of rents. This view may quite possibly be over-optimistic in certain instances; for while there is reason to count on an improvement in the return on building in a number of countries, side by side with this, expenditure on upkeep is likely to increase as the houses grow older; so that the funds available for payment of interest on capital and amortization may not increase to any great extent - unless of course there is a devaluation of the currency.

Two final points: First of all, in countries where interest rates are very high, amortization represents only a small proportion of annual charges. Hence there is no point in taking out long-term loans and thus providing for

annual subsidies over more than ten or fifteen years where State aid takes the form of annual subsidies. This consideration does not always appear to have been borne in mind.

Secondly, the system applied in the Scandinavian countries, especially in Denmark, in the matter of private loans on first and second mortgages, is to be recommended. The system is that the redemption of loans on a first mortgage is not effected until the repayment of the second mortgage loan is completed.

#### Risk Coverage

Whether the capital is furnished by the owner or is in the form of loans, it is in all instances invested for a long period. Hence payment of the annual charge necessary to provide a return on the capital and to cover amortization must also be made over a long period. Even if at the time of construction the financial equilibrium of the operation as a whole seems safe enough, and if measures are taken to cover in the normal way, with or without public aid, the annual financial charges, the fact remains that a number of unforeseen circumstances may arise to change the original outlook. Hence the capital invested runs a risk which is by no means negligible, and the problem of covering this risk is the next problem which arises under the heading of financing of housing.

The risk is greater today, for a number of reasons, and the present trend in many countries is to place the burden essentially on the shoulders of the authorities.

One feature which became very clear in the course of the investigation was that the assessment of this risk is largely dependent on the extent of the discrepancy between rents of new buildings and those of old buildings. The greater the discrepancy, the greater the reluctance of private capital to commit itself over a long period, except occasionally at very high rates of interest. To give an example, private land banks in Sweden make first mortgage loans of up to 65 per cent of building costs, whereas in Denmark such loans cover only 35 per cent. Yet in these two countries the rents for new buildings are roughly comparable, though in Sweden rents for old and new buildings are at more or less

the same level, whereas in Denmark the difference is very considerable. A further example is the fact that in France and Italy, while rents for new buildings are completely unrestricted and although the housing situation in some towns is most critical, there is very little building of new dwellings for letting purposes, whereas a fairly considerable number of buildings are going up for sale to owner-occupiers on completion. In other words, investors refuse to run the risk of long-term investment. Only persons in need of houses to live in are willing to take the risk. As a matter of fact, this situation arises even where the market value of new houses is in the neighbourhood of the cost of construction, or even higher, owing to the shortage of accommodation in the towns. This is easily explained. Old houses are still by far the most numerous, and the long-term risk is that an improvement in the housing situation may result in the re-adjustment of rents at a level midway between those for old houses and those for new ones and possibly rather nearer to the former. The financial balance assessed at the time of building runs the risk of being upset, and even though the market value of new buildings is high nowadays as a result of the critical state of affairs in particular localities, it may not remain at the same level in the future.

There is an additional risk where capital is raised by means of loans. Since loans are usually, and at times compulsorily, in certain countries, expressed in national currency, an investor runs the risk in the event of a general rise in the level of prices of finding that repayment will represent only the nominal value, not the real value, of the funds he has invested. This danger is felt differently in different countries, according as inflationary tendencies are or are not acute, or even according to whether the memory of repeated or serious devaluations is or is not present in people's minds.

In the past the risk involved in the investment of capital in building has as a rule been divided between the owner providing his own capital and the investor from whom he obtained funds. The latter limited his risk through the security of a mortgage. Also, he confined his loans - at any rate loans at a moderate rate of interest - to a given percentage of the market value of the building, and made sure that the normal income from the building would more than

cover the annual payments due to him. As the risks are higher today, the private investor in a first mortgage tends to reduce the amount of his loans, while as a rule owner/builders make far smaller personal contributions than formerly. Hence the authorities in every country have had to guarantee loans for building operations of which they approved, to enable builders to find the necessary capital, at any rate at a reasonable rate of interest.

Thus the taking over by the authorities of the greater part or even the whole of the financial risks run by builders is one of the essential characteristics of public assistance to housing nowadays. Owing to the variety of forms which financial intervention by the State may take according to the country concerned, this characteristic is not always clearly distinguishable from the aid given merely to enable future financial charges on new buildings to be balanced in existing circumstances. The taking over of the risk is obvious where building is undertaken by the authorities themselves. In other cases, the State issues a supplementary loan where the builder is unable to obtain loan capital apart from his own funds at a reasonable rate of interest in the neighbourhood of the current market rate. Such supplementary loans are themselves made at a low rate of interest; while at times, apart from any subsidies payable, the State guarantees loans contracted by the owner/builder. This guarantee differs in amount and coverage. According to the country, and occasionally in one and the same country according to the aspect of building encouraged at the time by the public authorities. Incidentally, the various schemes are not all equally advantageous and have not all the same drawbacks. The mere guaranteeing of private loans, unlike other schemes, does not involve any immediate disbursement, but entails an obligation for the future. As to risk coverage, the various methods all have the same object.

Cover for risks is provided according to the country either by the State itself or by local authorities. In some countries, it is divided between them. Occasionally, indeed, the local authorities guarantee loans obtained from the State.

But to obtain an accurate picture of the relative position in the various countries, we must remember that today, capital is comparatively plentiful in some countries while in others it is extremely short. The only problems arising in the former countries - in Switzerland and Sweden for example - are how to direct a portion of savings towards building, in so far as building is not a paying proposition; and more important still, to encourage the use of savings for the building of houses regarded as the most useful from a social standpoint, though often the least profitable; to promote the circulation of capital at the lowest possible rates compatible with the existing financial situation; and to establish a supervisory system to ensure that assistance by the public authorities is not wasted, but helps to reduce building costs instead of contributing to maintain them at a high level or to increase them. The other countries are faced with addition - and extremely difficult - problems.

The chief problem arises from the obvious inadequacy of savings to meet the whole of the apparently essential investment requirements. Thus investment for building purposes is in keen competition with other public or private investment needs. Not only must a difficult choice be made at times, but States have recourse to a variety of methods to increase sources of financing - encouragement to individuals to contribute funds or to make loans for housing by offering them subsidies in the form of a lump sum or of annual payments with a view to attracting savings not invested in the money market, or to promoting saving by the voluntary reduction of expenditure on consumption; special taxation arrangements for housing; and recourse to the banks of issue. Such is the policy pursued nowadays in a variety of more or less satisfactory forms, especially in Germany, France and Italy.

This competition for investment between housing and other branches of activity is likewise met with in connection with State financing, in view of the resources at the State's disposal and its own credit facilities. This factor, added to the doctrinal position of governments, has influenced the policy of certain countries and the types of assistance granted by the authorities.

The difficulties referred to are found in varying degrees in a great many countries, but they appear to be predominant in some of them, to the point of reducing certain other problems to a secondary role. In particular, we have referred to a tendency to mortgage the future in order to help solve particular current problems (aid to building in the form of subsidies the annual charges on which will gradually increase; drastic reduction of annual interest and amortization rates for the first few years etc.). While in general this policy arises from what appear to be reasonable forecasts of the future, in some countries, on the other hand, the future is obscure and the only problem is to choose methods which will facilitate immediately a certain measure of development in building at the lowest possible cost, even though in normal circumstances such methods would probably not have been contemplated.

## Chapter II

### PRESENT TRENDS

When we come to consider the variety and magnitude of the problems which have arisen in recent years and the ingenious attempts made in various countries to solve them, we are forced to admit that rarely has history offered so vast a field of experiment in the matter of financing housing as that presented by Europe at the present day.

In spite of this diversity, however, certain features common, if not to all, at least to a large number of countries can be observed. These features are more strongly marked in some places than in others and local conditions may change their appearance.

Whereas, at the beginning of the century a large proportion, not to say the vast majority, of new houses were built by private enterprise for letting purposes, that is no longer the case to-day. House-building is now undertaken primarily by non-profit-making bodies, usually under the supervision of the public authorities and in many cases by the public authorities themselves - or else by persons wishing to build their own homes, the predominant type of entity behind such activity varying according to the country. At times, even, building is carried on almost exclusively by public bodies (as in the Soviet Union and the United Kingdom). Everywhere, however, the building of dwellings by capitalists with a view to letting them at a profit is on the decline; indeed, in some countries it is non-existent or has almost completely disappeared.

Side by side with this development we find another which is tending to change the rights exercised over his dwelling by the occupant. Fifty years ago, tenants generally enjoyed only a somewhat precarious right of occupation, based on their lease, which was almost always a short one, the landlord being free to oust the tenant on expiry of the lease without giving any reason. Little by little, tenants have striven by various means to obtain security of occupation,



while landlords have often accepted, more or less willingly, a restriction of their freedom of action. It does not come within the scope of this report to study the extent to which such tendencies have obtained at least partial satisfaction, as far as existing dwellings are concerned, through the introduction of rent legislation in various countries. It may, however, be pointed out that this legislation has helped to speed up the general trend by getting people used to such ideas.

In the building field, the first consequence of this search after security of occupation has been to swell the number of persons wishing to own their own dwelling, and the difficulties often encountered nowadays by families in search of a home, even a rented one, tends still further to increase the number of candidates for ownership. The majority of States have encouraged this tendency for various political, social, and sometimes merely financial, reasons (since an owner is generally willing to spend a larger part of his capital or income on his house). Once, however, such building activity began to be undertaken by persons with little or no savings, it became necessary to organize financing systems by which almost the entire amount required to cover the building costs could be advanced to them on a long-term basis. House-owners thus found themselves obliged to pay during their whole lifetime - unless their debt was reduced by currency devaluation - an annual sum equal to, if not greater than, the rents usually charged. At the same time, in order to guarantee repayment of their loans which, during the first few years are much higher than the market value of the house, and to compensate for the benefits they offer, the lenders - in many cases public bodies or even the public authorities - are led to keep a fairly close check on the use made of their money and hence to restrict the owner's right of free disposal.

However, forms midway between individual ownership and mere tenancy have also developed. For instance, ownership of a flat or floor, a system which is gaining ground to-day in certain countries (Austria, France, Italy and the Western Zone of Germany); under this system the various owners of a block of flats acquire a personal right to one particular flat or floor and are co-proprietors of the common parts; the Finnish "semi-communal" flat system,

which is very similar to the above; "owners' co-operatives", in which the building is carried out by co-operatives, whose members gradually acquire individual ownership of their dwellings by payment of an annual instalment; and, especially, "tenants' co-operatives", which are very common in the Netherlands, Switzerland and the Scandinavian countries, and under which the tenant, while never becoming the individual owner of his dwelling, takes part in the administration of the co-operative and generally enjoys, legally or in fact, a right of permanent occupation; finally, the various forms of private contracts between owner and tenant, under which the latter shares in the cost of building and in return enjoys, among other advantages, the right of long-term occupation. Various other circumstances, quite apart from the desire for security of occupation, have brought about this development: the obligation, in certain cases, to build apartment houses, and the shrinking of private fortunes in various countries. Here again, States have often encouraged these new forms of building by conferring special benefits. The main reasons for this policy appear to be: their interest in encouraging group building either in order to facilitate the systematic development of particular districts or urban blocks, or with a view to bringing about a reduction in building costs and the adoption of industrial methods by building undertakings; political, social, or financial reasons similar to those which led them to encourage building by persons wishing to own their own homes. The extent to which particular forms of ownership have developed varies according to trends and habits in the country concerned.

Of all the countries studied, the United Kingdom is the only one in which the State gives financial support to housing construction for letting purposes only, such activity being principally undertaken by the local authorities. In spite of this exception, the general trend of development seems sufficiently important to be worthy of emphasis. Although it has undoubtedly been speeded up by post-war conditions, it appears to have deep roots and a certain character of permanence. It should, however, be pointed out that during the last few years there have been signs of a somewhat reserved attitude on the part of the authorities of certain States towards the building activities of non-profit-making private bodies, an attitude which is reflected in an increase in the number of

dwellings built by municipalities or public bodies by comparison with those built privately.

The growing part played by the State in financing building seems to be the second main feature of present-day developments, practically the only exception to this being Switzerland.

The change in the design of buildings, the need for someone to assume part of the risk and to make good the lack of capital or to encourage saving are, among other circumstances - in particular the political, economic and social trends of governments - the factors which have brought about the development of this policy. However, the most obvious and perhaps the most permanent cause is the fact that house property does not offer a sufficient return.

This latter phenomenon does not seem, as is often believed, to have arisen only as the outcome of the economic upheavals caused by the second world war, though the latter have no doubt greatly increased the disproportion between costs and return - which varies considerably according to country - with the result that it now applies to almost every category of new building. But this phenomenon made its appearance, on quite a large scale already, long before the last war in those countries which have achieved greater success in the field of low rental housing. It seems likely to continue until building costs can be appreciably reduced, if the broad masses of the population are to be provided with dwellings of a standard regarded in the particular country concerned as generally desirable. No doubt, in the case of certain countries, it is not strictly correct to say that house building does not offer a sufficient return, since, in those countries, rents of new houses are not controlled. In practice, however, only a small minority of the population is willing, or able, to spend on living accommodation the extremely high sums which are demanded in such cases. This is a situation symptomatic of an acute housing crisis which cannot continue indefinitely without serious social repercussions and for this reason, even in the latter countries, the public authorities step in to encourage and assist the building of dwellings for the poorer classes of the community. Switzerland is

practically the only country where at the present an economic return on private building is normally obtainable, the Confederation having withdrawn its financial support for building two years ago<sup>(1)</sup>, while that provided by the cantons and communes is gradually coming to an end.

There is therefore a close link to-day in all the other countries between new building and the encouragement of its development by the State. From that standpoint, the countries studied may be roughly divided into two groups: those in which an active policy of assistance to building dates back to the years before 1949 and in which, accordingly, there was a considerable expansion of building during those years, i.e. such countries as Denmark, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom; and those where on the contrary, the housing question did not become a major concern of the government until about 1949-1950, when new measures were taken which have begun to bear fruit, though their full effect has probably not yet been felt; during the last two years building has gone rapidly ahead in this second group - for instance in Belgium, Finland, France, Italy and the Western Zone of Germany.

State aid is given in various forms (loans, subsidies and guarantees of settlement). Occasionally, certain forms predominate; in other cases several systems are employed either side by side or in different sectors. Incidentally, the choice between systems does not seem to have been chiefly determined by the extent to which builders can count on obtaining credit facilities from private savings. Thus, for example, in Sweden and in Switzerland (until 1950), two countries where savings capital is abundant, two diametrically opposite systems have been employed. In the Western Zone of Germany and in Austria, where capital is scarce and rates of interest high, the practice of State loans seems to predominate, whereas in Italy and even in France, it is the policy of subsidies which is mainly followed. It should be noted that, speaking very generally, the part played by local authorities, though varying according to country, is often quite considerable, their assistance almost always supplementing that of the State.

---

(1) Except for some special cases - dwellings for agricultural workers and for government servants.

The differences in the practice followed seem to be attributable primarily to the traditional financial policy of the country, the general basis provided by the banking structure (particularly by land banks), the part commonly played by local authorities in the life of the country, the credit position of the State itself, and occasionally merely to existing circumstances, though the most important of all is the political bias of the government.

The very variety of local situations makes it impossible to assess the relative value of any particular practice. In such a question, as often in financial and banking matters, the essential factor is the psychological reaction of the population - and of course its deep-rooted national customs. The same is true of the organic structure which provides the general credit basis. The most that can be done is to indicate that, in certain countries, the impression obtained is that the various measures have been piled one on top of the other without any general review having been made of the financing problem in the light of existing circumstances. This may sometimes result in unnecessary expenditure.

The economic development which has been taking place during the last year in the majority of countries may perhaps induce some of them to change the methods in use at the present time. Building costs have begun to rise, inflationary tendencies are making their appearance and fresh burdens have been imposed on State budgets. Although these new conditions had not, during 1951, brought about any profound changes in housing policies, it is probable that during 1952 their effects will make themselves felt on the financing methods employed and even perhaps on the volume of investment in housing.

These effects may, in any case, vary greatly according to country. They may lead, in one, to a reduction and in another, to an expansion of the financial assistance given. While investment in housing may be reduced in certain countries in order not to overload the financial market, they may be encouraged in others as a satisfactory method of re-absorbing part of the means of payment. This trend may lead certain States to change their methods of intervention (substituting a loan policy, for example, for a policy of subsidies). It is clearly not possible to-day to estimate the potential importance of such changes, though it seems necessary to draw attention to them.

Finally, ways and means of assisting at the international level the housing financing policies followed in the different countries need to be considered.

The first form such aid might take would seem to be an exchange of information, of which the present report is but a first rough outline.

By bringing to the knowledge of experts and governments the systems used elsewhere, it is possible to draw their attention to some particular method which, after the necessary adjustments, might be successfully applied in their own country. It is quite certain, however, that there can be no question of providing them with full details of each of the systems employed; direct contact will be a necessary sequel. Such international studies might however help to guide their researches.

In that connexion, it would seem desirable for studies to be undertaken by the Housing Sub-Committee on different points in turn, the following being examples of those which seem most essential:

- (1) Rent policy
  - (2) Taxation policy with regard to housing
  - (3) The financing of housing during the building period (financing of undertakings or of owners)
  - (4) The mortgage system
  - (5) Building-land policy.
- Farmer or urban?*

Is it possible to envisage any other form of aid?

At its general assembly at Stockholm in July 1951, the International Federation of the Building Trades Employers passed a resolution requesting, in particular, that steps to establish an International Real Property Credit Institution should be studied by the competent bodies and especially by the Housing Sub-Committee. Judging by the record of the discussions, the majority of the representatives of the national federations at the congress considered that such studies should be pursued with great caution.

What can be the advantage of setting up such an institution in present circumstances and what are the limits which must be set?

In our opinion, real estate loans can be granted only by a body possessing local representatives able to ascertain the position of applicants for loans and the value of the security offered and who are familiar with the mortgage system peculiar to each country. It would seem then, on first examination, that only national bodies would be in a position to meet these requirements. We find, however, that, in certain countries, there is a reluctance to invest savings in loans on property in spite of the value of the security, while interest rates are becoming prohibitive. One of the chief causes, if not the fundamental cause, of this situation is the lack of confidence in the national currency and the consequent refusal to make loans in that currency. It is probable that, if an international real property credit institution could issue, in the various participating countries, bonds expressed in a currency inspiring confidence and could make loans in that currency, it would then be possible to reduce considerably the interest rates on real estate loans in certain countries. Such a body could easily find correspondents able to conduct loan operations on its behalf on favourable terms among the existing real property credit institutions or land banks in each country. The operation of such a body undoubtedly involves a risk since rents do not always follow currency fluctuations. In point of fact, however, this risk is probably not very great, and might be covered in certain countries by a State guarantee, though that expedient does not seem very desirable. The objection of States to lending and borrowing operations being carried out in their countries in a currency other than the national one might be a much more serious obstacle. In any case, in order to succeed, such an organization would have to start in a small way.

Apart from such an international real property credit institution, the possibility of whose establishment would have to be carefully studied, it appears that financial assistance to housing at the international level can only be effected within the traditional framework either of international bodies set up to provide financial assistance to certain States, or of private contracts, in so far as exchange regulations permit.

IM/HOU/WP.1/11  
page 27/28

PART II

COMPARISON OF METHODS USED



### Chapter III

#### GENERAL CONDITIONS GOVERNING THE FINANCING OF HOUSING

Some of the conditions governing the financing of housing date back many years, a fact which must not be forgotten; while others have arisen from present-day circumstances and are the outcome of the last world war.

The industrial revolution during the nineteenth century brought about an increase in the wage-earning classes and an influx into the towns in all European countries. To cope with the shifting and increasing population, a great number of dwellings were provided either by converting or enlarging existing buildings, or by constructing new houses. As a rule these dwellings were built by private enterprise and most of them (whether one-family house or blocks of flats) were let. But some dwellings soon came to be regarded as inadequate on account of their restricted space or lack of conveniences, and some quickly became unhealthy owing to faulty construction, inadequate upkeep or bad foundations.

The key to this situation must be sought mainly in the anxiety of private owners, at that time the only builders, to invest their money to the best possible advantage, and likewise in the low rents usually paid by the tenants, who were unable or unwilling to spend a sufficient proportion of their earnings on their living accommodation, in view of their commitments in other directions as industrial civilization developed.

As a result of the evolution of this civilization, and of the research carried out in the spheres of hygiene and sociology, public opinion gradually came to regard as inadequate the housing conditions under which the mass of the population had lived hitherto; and the theoretical standard of minimum housing rose steadily in practically every country. Thus often enough, what it was found necessary to change was the average standard of workers' dwellings and in country districts of rural housing.

While in most industrial sectors, technical progress has brought about a considerable lowering of real prices over the last fifty years, this has not happened in the building industry, and the advance in the average standard of new dwellings intended for the masses has not been offset by a corresponding reduction in prices. Yet in most countries it did not seem feasible for the working classes, and particularly the poorer sections, to increase at all appreciably the proportion of their income which they spent on rent. This is what gave rise to the problem caused by the disparity between an economic return on housing and the rent obtainable. In some parts of Europe this problem made its first appearance several decades ago, but it is now found everywhere, though in a number of countries it has been much aggravated by circumstances.

Not all countries have of course evolved in exactly the same way over the last hundred years. In some industrialization went rapidly ahead while in others progress was slower - the United Kingdom for instance became industrialized at an earlier date than Sweden, and Germany to a greater extent than France or Italy. Moreover, the nature of the hereditaments bequeathed by the past has differed very considerably. Their average life was variable, and the features of the houses made it easier in some cases and less easy in others to bring dwellings up to the housing standards regarded as desirable; while these standards themselves, though they are tending to become uniform, even today may be more exacting in some countries than in others.

Whatever the differences may be, housing costs everywhere have risen more steeply than other consumption expenditure. This is due to the fact that building costs have at times increased more rapidly than the general price level, that the standards demanded nowadays are higher than in the past, and that in some countries interest rates have risen considerably.

At the same time, the proportion of the total consumption expenditure represented by housing has dropped almost everywhere, though in varying degrees. Rent restriction legislation introduced during the 1914-1918 war and the last war has accustomed the masses in some countries to paying very little for their

living accommodation; and it is extremely difficult to change such habits, since it would mean a far-reaching revision of consumption expenditure. In other countries, the discrepancies have increased without becoming excessive. But even in countries where rents represent a very high proportion of the expenditure of a working class family, e.g. in countries like Switzerland, not impoverished by the war, there are those who wonder whether the burden they impose on the masses does not lower their standard of living.

Hence the disparity between the rent level and an economic return on new houses has everywhere become more marked.<sup>(1)</sup> The differences of course vary widely from one country to another and would appear to arise both from the effect of hostilities on the living standard of the peoples and from the various political trends which have come to light.

The two world wars have had a revolutionary effect in this connection. Quite apart from any temporary or local economic disturbances they may have caused, they have everywhere greatly speeded up the evolution which was taking place and which tended to raise the standard of housing and to lower rents. But whereas in other sectors of economic life they brought about technical changes, this has not been the case in building.

The fact that housing, especially working-class housing, is a poor speculation<sup>(1)</sup> for private capital as compared with the yield from other sectors, invariably means the intervention of the public authorities. In many ways, the

(1) We do not propose to repeat what we have said in the previous chapter regarding the possible economic return on new houses in countries where rents are not controlled. We have mentioned the form which the problem then assumes, and the reason why the situation in those countries is no different from elsewhere. Actually, over a fairly long period the prospect of an economic return on such housing does not appear to be any greater.

study on "methods and techniques of financing housing" is nothing more than a survey of types of intervention by the public authorities.<sup>(1)</sup>

But the poor return, or even loss on new buildings<sup>(2)</sup> at the rates current on the money market has had the further effect in most countries over the last fifty years of reducing the number of houses built for letting by private individuals as an investment, and of making them virtually non-existent today in some countries. No doubt there are other causes, too, underlying this development. There is often the added difficulty of mobilising at short notice the capital invested in a building for lack of a sufficiently large market or on account of complicated and often out-of-date legal regulations; while the assistance granted by the public authorities to builders has, as a rule, either been refused to private enterprise wishing to build with a view to letting for profit, or it has been too meagre an inducement to attract it.

Building of this kind is of course still going on in most countries, but it appears that only rarely is it intended for the masses (apart from a few cases of war-damaged buildings reconstructed under special legislation); for the most part it is intended for the well-to-do classes. It does not appear to account for more than a small percentage of new dwellings, except perhaps in Germany (Western Zone), Belgium, Italy and Switzerland.

✓ New buildings going up in Europe to-day are in fact mainly the work of either:

- private individuals building houses to live in themselves; or
- bodies that are not out to make profits from letting, i.e. co-operatives, associations, societies or institutes; industrialists wishing to house their employees; or public authorities.

(1) In this report, however, one of the forms of such intervention will only be referred to incidentally, namely, the taxation system applicable to building and housing. Although in many cases the incidence of taxation and the form in which it is levied are very weighty factors, it has not seemed possible to study them owing to the complexity of the problem. This might form the subject of a further report, if the Housing Sub-Committee so decides.

(2) See footnote (1) on the previous page.

The new aspect assumed, for the moment at any rate, by housing construction in most countries has made it more difficult to raise capital.

Builders nowadays can, as a rule, themselves provide only a very much smaller proportion of capital than formerly, even in Germany and Italy where the building of blocks of apartments for letting appears to have remained at a relatively high level, since the persons concerned were in many instances ruined by the war and its consequences. Everywhere, whether in the case of families anxious to build their own houses or of non-profit-making bodies, the capital available for investment is as a rule very much less than formerly. One of the problems which appears to have faced most countries therefore has been to increase the possibility of loans beyond the limits normally laid down hitherto.

However, any such policy has often been hampered because the prospective borrower possessing no financial backing or competence, found it difficult to obtain large-scale loans direct from the market or from credit organizations. The establishment or development of specialized financing organizations acting as intermediary between the builder and the investor is therefore one of the characteristics of the change in building financing methods during the last few years, especially quite recently. Such bodies have taken a variety of forms. In many instances they have been semi-State concerns; and in some countries they are actually government departments.

Again, the difficulties arising from the lack of capital available in the face of monetary instability, already referred to in the previous chapters, have added still further to the problems of financing housing.

## Chapter IV

### SOURCES OF THE CAPITAL INVESTED IN HOUSING

The actual sources of the capital at present being invested in housing projects in Europe are multifarious and sometimes difficult to discover, owing to the number and variety of the financial corporations which often stand between the - voluntary or compulsory - investor and the property owner, and also to the interplay between different forms of investment in various countries. However, it would appear possible to distinguish the following sources:

- voluntary long-term investment;
- savings in the form of insurance;
- demand or short-term deposits;
- taxation and compulsory saving; and
- advances from the bank of issue.

#### Voluntary long-term investment

The first item to be included in this category is, of course, capital provided by the owners themselves and private loans. It is very difficult to form any exact idea of the aggregate funds which are invested in housing in this way. It is, however, certain that the relative importance of these two sources of capital has declined heavily since the beginning of the century, although even today they still supply most of the funds with which repair and maintenance works are financed and, in some countries, still account for a high proportion of the capital invested in new building projects. That would appear to be true of Switzerland and, to a lesser degree, of Belgium, France, Germany and Italy. Accordingly, it is the policy of a number of countries to encourage the growth of this form of saving, either by granting interest rebates (the Netherlands), subsidies (France, Germany, and Switzerland up to 1950) or tax relief, or, much more usually, by limiting loans from State financial agencies in order to compel owners to find some of the capital themselves. The latter seems to be the practice common to most countries as part of low-cost housing legislation, but it is not usually possible through these methods to find more than 10% of the cost of dwellings (including the cost of the land) built as part of low-cost housing schemes.

Sums spent out of their own resources by industrial firms, as employers of labour, on the building of workers' dwellings, whether they build on their own account or take shares in building undertakings or make loans to their employees, should also be regarded as voluntary long-term investments. This method of financing was very common between the two wars in a number of countries (Austria, Belgium, France, Germany, Italy and Sweden), and still plays an important part, and is frequently encouraged by tax relief, in some (France and Germany). It is the commonest method used in the USSR, though there it can hardly be called voluntary saving.

In addition to these forms of investment there is the method of issuing securities on the financial market; these issues are made mostly by private, semi-public or public financial institutions which specialize in real estate loans. Actually, this once highly important source of capital has also tended to shrink, perhaps - except in a few countries - even more than the volume of capital supplied by the owners or of private loans. This development is largely due to two causes: currency devaluations, which have shaken the investor's confidence in fixed-income securities, and the low returns from investments in building. Since these factors have developed differently in different countries, the function of these financial institutions varies a great deal. In the wealthiest countries (Denmark, Sweden and Switzerland), they are still of considerable importance.

Lastly, some of the capital provided for housing out of public funds also originates in Government borrowings from the money-market; but it is, generally speaking, impossible to state what proportion.

#### Investment by insurance companies

Although as a rule less important than the sources of capital described above, the investment of their reserves by insurance companies - whether directly in property or in the form of real estate loans, or in credit institution bonds - plays a not insignificant part in countries where insurance, and particularly life insurance, is highly developed. It was said, for instance, still to account for 5.5% of housing investments in Germany in 1950, and for

one-quarter of all loans for urban house-building granted by private institutions in Finland. One-quarter of the total resources of Swedish insurance companies is invested in building, and these companies are prominent among purchasers of mortgage institution bonds. Insurance companies are also particularly active in the real property market in Switzerland.

Lastly, it should be noted that the National Savings Bank and Pensions Fund in Belgium, the Deposit and Consignment Office in France, and the Deposit and Loan Fund in Italy, which are responsible, inter alia, for centralizing and administering public pension and social insurance funds, have a strong influence on policy with respect to the financing of low-cost housing.<sup>(1)</sup>

#### Demand and short-term deposits

In almost all countries the banks are active in financing building undertakings. The methods vary in flexibility and suitability (and, hence, so do the charges) in accordance not only with the structure of the banking system but also with the law of land tenure in each country.

In some countries, however, deposit banks also make short-term loans during construction - for a few months, or, at most, one year - to property owners before the loans are consolidated as long-term loans.

Loans to house-owners from the savings banks are much more important, since they are in the nature of long-term loans, whether granted for a fixed term of several years (repayable in annual instalments or otherwise) or repayable in theory every six months, but renewed in practice by tacit agreement.

At the present time savings banks appear to supply a large proportion of the capital used for housing and their share in the financing of housing seems to have been growing over the last 50 years. For example, savings banks probably accounted for the following proportions of the total invested in 1950:

---

(1) See Chapters VIII and IX.



- 30% in Germany<sup>(1)</sup>;
- 50% in Finland (not counting private loans);
- 15 - 20% in Sweden, or approximately two-thirds  
of the savings banks' resources;
- 15 - 20% in Denmark.

In 1949, advances for house-building in some form or other represented 57% of the investments of the Belgian National Savings Bank and Pension Fund, and 7 - 10% of those of the French Deposit and Consignment Office, these two bodies being responsible for centralizing and administering the funds of both the savings banks and the pension funds.

The funds of the Swiss savings banks also seem to be heavily invested in housing.

Lastly, although the Building Societies in the United Kingdom, which are virtually savings banks, have now ceased to play an important part in national housing policy, they were the main investors in housing during the inter-war period. This development normally has the good effect of reducing the rate of interest on loans, since the interest on demand or short-term deposits, particularly in savings banks, is normally lower than that on long-term bonds; but it may be considered dangerous, insofar as it aggravates the difficulties of certain savings banks in the event of withdrawals of deposits or of serious slumps in the real property market. The danger, however, seems to have little substance in practice, provided, of course, that investments in housing do not exceed a certain percentage of the deposits - which may be a high percentage - and that loans are advanced subject to certain guarantees.

#### Taxation and compulsory saving

The normal consequence of the ever-growing intervention, in most countries, of the State and local authorities in the financing of house-building has been to use taxation as an instrument of financing.

---

(1) Including loans from the Building and Saving Societies.

Since funds lent by the State - or local authorities - do not, in most cases, involve drawing on special resources, it is hard to tell where they come from. The source may be borrowings by the State for its own treasury, or the aggregate of the taxes collected by the State. But it may be interesting to mention two clear examples found of taxes specifically devoted to housing.

The first of these, which refers to the past, is the tax on rentals and house-property introduced in Germany after the currency reform of 1923. A special tax on old property<sup>(1)</sup> was introduced to offset the increased rentals and the improved mortgage redemption terms granted to house-owners. It may be stated, without describing the machinery in detail, that in the case of rented property, the tax was calculated as a percentage of the pre-war rent and was paid by the owner but charged against the tenant; in other cases it was paid by the owner independently of the property tax. At all events, the object was that the owner should be left with a sufficient sum, estimated at 30% of the pre-war rental, to cover repairs and management expenses. The tax rate varied from time to time and from State to State within the Reich, rising to approximately 50% of the pre-war rental in 1928 and declining to around 25% in 1935. The proceeds of the tax were applied to different purposes, but at least 10% had to be used for house-building, although in practice a much higher percentage was used to provide low-interest mortgage loans. It may be assumed that between 1924 and 1932, 30-50% of German house-building was financed out of the tax on rentals. Such a levy is warranted in countries where a radical currency devaluation has produced a general rise in rentals benefiting property-owners as distinct from other investors and particularly from persons who had subscribed State loans. In France there is a levy, although a modest one (5% on an average), on house rentals, the proceeds of which are paid into a "Housing Improvement Fund" designed to subsidize overdue major repair and maintenance work on old properties, so that it is more of a sort of compulsory equalization fund amongst property owners.

---

(1) It was even extended to new properties, but in the form of a mortgage partially offsetting the subsidy grant.

The second example is taken from Italy, where a tax specially earmarked for house-building - but assessed on an entirely different basis - was introduced under the Fanfani Plan in 1950. All employees of the State and of public or private undertakings have to contribute 0.6% of their wages or salaries, while employers contribute 1.2% of the same sum, the total proceeds being used to finance housing.<sup>(1)</sup>

#### Contributions from the bank of issue

Another method, which has been used or is contemplated in some countries, is to approach the bank of issue for the purpose of financing housing.

This may occur, for example, where housing is financed by the Treasury and the latter, lacking the necessary funds, approaches the bank of issue. Such cases have arisen in some countries during certain of the post-war years.

Moreover, the financing by banks of building by firms or private individuals may, depending on the position of the banks concerned, involve rediscounting of their bills of exchange with the bank of issue - an established practice which is commoner in some countries than in others, but which, as a rule, only affects short-term credits, say for a few months or one year.

After the currency reform of 1923 bills drawn for longer periods were used in Germany. At the present moment the Crédit Foncier in France can grant medium-term loans (maximum period five years) which have to be re-discounted with the Banque de France.

The following conclusions would appear to emerge from a study of the sources of the capital invested in housing in different countries.

While in each country the funds are drawn from a variety of sources, the relative importance of each source differs from country to country, in keeping with differences in financial structure, investing practices and government

---

<sup>(1)</sup> Another example of forced saving apparently exists in Spain, where under a law promulgated in 1943-44, 20% of the compulsory reserves of undertakings must be applied to the improvement of workers' dwellings. What happens is that, apparently, undertakings do little building themselves, but finance the National Housing Institute.

policies. Broadly, it may be said that voluntary long-term investment in house-building (owner's contributions, private loans, bond issues etc.) is declining, whereas, by contrast, direct or indirect investment by savings banks is expanding. Still, the financing of housing by industrial undertakings as employers of labour, has substantially increased since the beginning of the century and represents, even today, a not insignificant part of all financing operations.

In some countries housing is largely financed out of public funds, in which case it is usually the general resources of the Treasury (taxes and borrowing) which are used to cover loans, advances and capital subsidies; that seems to be the practice current in the United Kingdom and until quite recently in the Netherlands. But in other countries - e.g. Denmark, Sweden, and Switzerland - private financing predominates. Between these two extremes stand most of the countries considered, where the proportion of expenditure on housing financed out of public funds fluctuates between 40 and 65%.

## Chapter V

### FINANCIAL INSTITUTIONS INTERESTED IN HOUSING

As was stated in the previous chapter, various types of financial institution assist in financing housing. For example, commercial banks, insurance companies and savings banks assist - to varying extents according to country - not only by making direct loans to builders or by placing the latter's shares or bonds, but also by taking up bonds issued by those credit institutions which have for long specialized in real estate loans in most countries, such loans requiring special treatment, as they are normally granted for long periods and secured (by the property itself) in accordance with a specific legal procedure (the mortgage or similar system). In the more recent past States have taken to granting loans themselves.

In countries where institutions specialising in loans on real estate exist - e.g. Belgium, France, Germany, Italy and Switzerland - they are generally known as "mortgage banks" or "real estate credit institutions or companies", and are sometimes subject to special legislation or State control, and sometimes actually public institutions. But despite differences of structure, which are mainly due to their historical background or to the variety of laws governing the credit and mortgage systems, they appear to operate on roughly similar lines.

Most of the capital of credit institutions and mortgage banks is normally obtained by issuing long-term bonds, which are sometimes secured, under special laws, by a kind of general mortgage on the property in respect of which the particular institution or bank has made loans. A small proportion of their capital is derived from demand or short-term deposits; but some States prohibit or severely restrict the use of such deposits for long-term loans in view of the financial difficulties which might arise from such practices.

Special mention should be made of a financing method largely used by credit institutions in Italy. Instead of issuing the bonds which they have created to cover the loans made, these institutions transfer them at their face value to the intending borrower, who has to place them, generally at a loss, in order to obtain funds.

Special types of financial institution have grown up under appropriate legislation in Denmark and, to a lesser degree, in the other Scandinavian countries (Sweden, Norway and Finland), namely, the "credit associations" and "mortgage associations". The former are co-operative associations of house-owners receiving loans, who accept joint liability for their association's commitments. The association raises the capital it requires by issuing bonds secured by mortgages on its members' houses. The activities and methods of the mortgage associations are broadly the same; but, unlike the credit associations, which lend only on first mortgage, they specialise in second mortgage loans. Neither type receives any special State aid, apart from certain tax reliefs.

Mention should also be made of the British Building Societies and their counterparts in other countries, and of certain types of credit societies set up in Belgium, France and Italy under special legislation designed to assist families to buy property<sup>(1)</sup>.

Credit institutions of all types normally grant loans to house-owners without regard to the use to which the money borrowed is put. The lending of money on existing dwellings or for the building of new dwellings is usually not their only activity, and their accounts seldom give a breakdown of loans by object to which devoted. It is therefore difficult to ascertain the extent of their present contribution to the financing of house-building, although there seems little doubt that it has substantially decreased, for the reasons given in preceding chapters. It would, however, be a mistake to assess their influence on housing policy merely in terms of the loans which they grant for new building, since, apart from the appreciable assistance they afford house-owners in financing repair and conversion work, they facilitate transfers of existing houses (whether old or new) and the rate of interest on their loans tends to regulate that charged on loans between private individuals.

The financing of new building has also been complicated by the fact that most

---

(1) Chapter IX contains a detailed study of these financial institutions.

of these institutions normally grant loans only on mortgage, hence only on completed houses. This difficulty is met in various ways. In some countries (e.g. Sweden) loans are granted to owners during building by commercial banks, and subsequently continued as mortgage loans. In others the credit institutions themselves grant loans, sometimes on different terms, as soon as building operations begin. In others, again, there are banks, sometimes associated with these institutions and sometimes not, which specialize in financing house-owners during building. These differences are probably due to the peculiarities of the banking system, the legislation and the credit practice in each of the various countries, and are sometimes perhaps mere historical survivals. To ascertain whether a particular system might be simplified, for the specific purpose of reducing financial charges, would entail detailed studies outside the scope of this report.

The amount of a loan granted by the credit institutions or the mortgage banks is normally limited, in practice or by law, to approximately 40 - 75% of the estimated value of the house, which is not the cost of construction, but a value approximating to the probable market value and based on the potential income from the house. Whereas for some years past builders have felt obliged to increase their borrowings in proportion to the building cost, the proportion of loans granted by the credit institutions to such cost has declined almost everywhere, since the gap between the estimated value of a dwelling-house and its actual cost has progressively widened. In certain countries, moreover, credit institutions are being forced to reduce the number or the amount of their loans still further in view of the difficulties which they are experiencing in obtaining funds.

Various governments or local authorities have met this situation by guaranteeing or backing the loans granted by the credit institutions. In Austria, for example, the Federal Housing Fund can guarantee second mortgage loans by private institutions; in France, the Crédit Foncier has been entitled since 1950 to lend up to 60% of the building cost, the difference between the loan and 50% of the market value of the house being guaranteed by the State; in Belgium, credit societies approved by the General Savings and Pensions Fund have, since 1948, enjoyed a State guarantee which has enabled them to increase their loans from 60% to 100% of the building cost; in the Netherlands, similar guarantees exist.

Generally speaking, this system would appear to be becoming more and more common to-day.

In addition, special measures have sometimes been adopted to increase the liquid assets of credit institutions. For example, in 1950 the central banking system of the German Federal Republic granted them a "re-financing" loan of nearly 500 million DM, and even proposed to have recourse to open market operations on their behalf. In France, as stated in the preceding Chapter, the Crédit Foncier has been authorized to grant loans for a period of five years in the form of bills of exchange which can be re-discounted with the bank of issue. In Italy, also in 1950, improvements were introduced in the operation of credit institutions, but only in respect of loans to persons wishing to own their homes, in which case the bonds issued are taken up at their face value by the Treasury instead of being remitted to the borrower.

It should, however, be noted that one of the commonest systems, apart from direct building by the public authorities and various types of subsidy<sup>(1)</sup>, is still the supplementary loan made directly by the State. State loans are granted for one form of building or another in all countries except Switzerland.

Increased activity on the part of State loan agencies is, in fact, one of the features of the financing of housing at the present time. Whereas at their inception they merely provided builders with some subsidiary financial assistance, they can and do now grant loans up to a very high percentage of the building cost, particularly in the case of low-cost housing.<sup>(2)</sup> The percentage is even higher

---

(1) See Chapter VII: "Assistance by Public Authorities: General Characteristics".

(2) Throughout this report the expression "low-cost housing" is used to denote housing which, under various names (housing estates, small houses, cheap dwellings, etc.), is covered by special legislation and receives preferential treatment in various countries. While the legislation concerned and the strictness of requirements vary from country to country, such housing is always intended for the mass of the population and not for privileged categories and, as a rule, rents are strictly controlled.



in some countries where local authorities guarantee the redemption of loans. Examples of the approximate maximum percentages<sup>(1)</sup> in certain countries are given in the following table:

Country	Percentage of building cost covered by State loans			
	Housing receiving preferential treatment		Housing in general	
	Authorized maximum	Percentage normally granted	Authorized maximum	Percentage normally granted
Austria	-	-	90	30 - 60
Denmark	95	-	85	-
Finland	90	85	65	-
France	75 - 90	75 - 90	-	-
Germany (Western Zones)	80 - 90	60	-	-
Italy	-	-	-	-
Netherlands	100	-	-	-
Norway	85 - 90	75 - 85	75	-
Sweden	100	-	60	-
United Kingdom	-	-	-	-

Although to-day they play an important part in the financing of housing in almost all countries, State loans are not always available to all builders of new dwellings, and the financial machinery governing their administration also takes a variety of forms.

(1) In view of the wide variety of terms on which different types of loans are granted in the various countries, these can only be rough figures given for purposes of comparison.

In the Netherlands and the United Kingdom, for instance, loans are made by the Treasury; but they are available only to local authorities and to certain non-profit-making associations.

In Belgium direct advances have been made by the Treasury to loan or low-cost housing societies under the law of 15 June 1949 instituting the Housing Fund, but on a temporary not, as in most countries, on a permanent basis.

In France, agencies governed by the Law on Low-Cost Housing receive loans from the Treasury, funds being obtained from the Deposit and Consignment Office, which services the loans.

In the USSR the loan funds are administered by the nationalized banks.

Austria has set up a Federal Housing Fund and regional funds for stimulating building, which are State mortgage loan agencies.

In Finland a governmental board, known as "ARAVA", makes loans for new house-building.

In Denmark and Sweden a governmental board has also been set up to make loans for housing.

Lastly, Norway has set up a Norwegian State Housing Bank since the war.

Thus in some countries the financial agencies responsible for administering loans are almost completely independent, while in others they are merged with the Treasury, which may or may not keep separate accounts for them. Between these two extremes lie various gradations due to different national administrative structures or political tendencies, or merely to circumstances. Similarly, the funds at their disposal are provided in some cases directly out of general State revenue, and in others, at any rate in part, out of special appropriations, the State always covering any deficit.

A comparative study of these governmental financing agencies shows some to be more flexible than others. While it is impossible, owing to the diversity of national traditions and administrative and financial systems, to state one single formula for all, certain principles would appear to be generally applicable.

Whatever their legal status and however they are administered, such agencies must enjoy a certain independence and freedom of action, de facto if not de jure, if they are to pursue a long-term policy unaffected by political vagaries and to adapt themselves to intrinsically changeable circumstances. It would therefore appear desirable that each should have its own minimum funds independent of the State's annual budget, and also that the terms on which loans are granted should not be too rigidly detailed in legal texts, which cannot easily be amended.

## Chapter VI

### GENERAL CHARACTERISTICS OF REAL ESTATE LOANS

(Security, duration, rates of interest, financial charges)

While the primary requirement for a sound housing policy in all countries is that builders should be able to borrow enough capital, over and above their own contribution, to cover building costs (assessed at a reasonable rate), there is a further cognate requirement, namely, that the machinery adopted should enable owners to meet the terms on which loans are granted to them.<sup>(1)</sup> Before outlining the principles governing State loans designed to supplement or replace other forms of financing, it is essential to indicate the terms on which real estate loans are normally granted in the various countries.

#### I. GENERAL TERMS APPLICABLE TO REAL ESTATE LOANS

##### Security required

A real estate loan is generally secured by "hypothecation" of the house.<sup>(2)</sup> But there are wide variations from country to country as regards both "hypothecation" and, more generally speaking, the real estate system. Some of the procedures followed appear to afford lenders fuller and more readily applicable safeguards, and to be more flexible and less cumbersome, than others. Although a detailed analysis of the structure of real estate systems is beyond the scope of this report, it is clear that the different systems obtaining in the various countries have a profound affect on the financing of housing. A faulty real estate system entails not only high financial charges - even if taxation is excluded - but also very heavy non-financial burdens, which help to divert capital away from real estate loans or to make the latter more costly (protracted procedure, multiple operations,

- (1) For as the proportion of borrowed capital to building cost increases, the annual financial charges generally increase in steeper ratio, loans becoming dearer as risks increase.
- (2) There seemed to be no point in describing "hypothecation" since the process is well-known. While it does not exist in two of the countries studied, namely USSR and the United Kingdom, in the latter there is a form of security which, although based on different principles, is largely the same in its effects as "Hypothecation".

inadequate security, hard-and-fast rules laid down for certain financing methods, etc.). A study of the best systems would certainly suggest improvements that each government might make in its own territory with due regard to existing laws and national habits.

Facilities for raising loans vary under the different real estate systems. Whereas in some countries mortgage loans can only be transferred in practice by a comparatively difficult and sometimes expensive procedure, in others the securities are of the "transferable" type and are easily negotiable, being sometimes even drawn to bearer. In that connexion mention should be made of the "mortgage certificate" (cédule immobilière) system, practised in Switzerland among other countries, which enables a property owner to create bonds secured by mortgage on his property and divided into small shares of equal value which he can sell in accordance with his requirements.

Loans secured on a first mortgage are common practice in all countries; but it is only in some - e.g. Austria,<sup>(1)</sup> Denmark, Finland, Germany,<sup>(2)</sup> the Netherlands,<sup>(3)</sup> Norway, Sweden and Switzerland - that additional loans secured by a second mortgage are commonly granted at reasonable rates of interest as an integral part of housing policy. In a few exceptional countries there are even loans secured by a third mortgage; but these are only granted subject to the provision of additional security (e.g. the lodging or pledging of securities or an insurance policy) as in Switzerland, or by the State itself, as in Sweden.

In addition to the mortgage system it is to be noted that some States have guaranteed or endorsed private loans or loans by real estate credit institutions in order to enable the amount to be raised beyond the hitherto permitted maximum (Crédit Foncier loans in France, private second mortgage loans in Austria, various loans for low-cost housing in Belgium, etc.) and that in many countries such guarantees are furnished by local authorities to bodies specializing in the building of low-cost housing.

Lastly, the mortgage may be supplemented, as in Belgium and France, by a special

- (1) With the guarantee of the Federal Housing Fund.
- (2) For official loans.
- (3) For certain State loans.

type of security covering loans granted by certain credit institutions set up in order to assist families wishing to own their homes. This takes the form of a life insurance policy taken out by the borrower in favour of a credit institution, so that the family occupying a house is free of debt should its head die. Variations on such additional security systems may exist in other countries.

#### Duration and redemption of loans

The average duration of loans and redemption requirements vary not only from country to country, but also within each country, depending on who grants and who takes up the loan, and on the nature of each operation. Apart from loans by State financial institutions, <sup>(1)</sup> loans for any period of time - from short-term loans (normally granted during building) to loans for an unlimited period <sup>(2)</sup> - are common practice in Europe. Redemption procedures are also many and varied. The loans may be repayable in fixed annual instalments, with or without interest, or in one or more instalments at fixed intervals, or at maturity. In some cases repayment before maturity is permissible under the loan agreement, but usually only at the request of the borrower; in others it is not.

Generally speaking, loans for periods longer than 40 years are rare, almost the only existing examples - apart from loans by State financial institutions - being the loans granted for periods up to 60 years by the "Credit Associations" in the Scandinavian countries <sup>(3)</sup>, which frequently provide for the postponement of repayment until the 30th or 40th year, i.e. only after repayment of the second mortgage loans made by the "Mortgage Associations", which must be repaid within 40 years.

- (1) Loans by State financial institutions are studied in the second part of this Chapter. The name "State financial institution", is applied, as in the preceding Chapter, either to the Public Treasury or to any State institution whose deficit is covered by the State, but not to the semi-State institutions which exist in various countries and operate more or less like private banks (real estate credit institutions).
- (2) Loans for an unlimited period exist, for example, in Sweden and Switzerland. The loans made by the German Savings Banks, which are renewable every six months, may also be classified in this category.
- (3) See the preceding Chapter for details of "Credit Associations" and "Mortgage Associations".

At the present time the general tendency of States that are in a position to influence the policy of real estate credit institutions or mortgage banks - whether because they control them or for any other reason - would appear to be to extend the loan redemption period in order to make things easier for borrowers. On the other hand, this period is tending to shrink in the case of private loans, particularly in countries with a limited money-market and at times of price fluctuation, and frequently does not exceed 5, 10, 15 or 20 years.

#### Rates of interest

There are wide variations in the rates of interest now charged for long-term loans on the various money-markets. For example, about the end of 1950 and the beginning of 1951 State loans were being capitalized at rates varying from 3-3.5% in some countries (Netherlands, Sweden and Switzerland) to 5-6% and over in others. The rates for private bond issues varied still more - approximately 3.5% in Switzerland and 8-10% in Austria and Finland.

While a survey of the general credit policies of the various governments is outside the scope of this report, the extent to which arrangements for financing housing depend on such policies has to be stressed.

In some countries, (Belgium and France), rates of interest on loans for house-building - except, of course, State-aided housing - are higher than, for example, the rate for State loans. At first sight this difference appears odd, since it might be assumed that the rates would be roughly the same, and that housing loans would be among the cheapest, in all countries. The special safeguards attached to first mortgage loans and the security they offer, particularly at a time when unoccupied houses are rare, should have the effect of making the rates of interest on them lower than, for example, the rate for loans to industrial firms which are probably exposed to greater risks. The anomaly is due to a variety of reasons, among them the rigidity, complexity and insecurity of the real estate system.

Conversely, it will be recalled that in certain countries the real estate loans commonly granted by the savings banks are appreciably cheaper than those

granted by the real estate credit institutions or by private individuals.

On the whole, therefore, so far as concerns only first mortgage loans not specially assisted by the State, rates of interest vary by as much as three times according to country, not only on account of differences in the rates normally charged on the various money-markets, but also for reasons peculiar to real estate loans, mainly connected with the source of the capital and the structure of the mortgage system.

The rate of interest on long-term real estate loans is normally set down in the agreement for the whole duration of the loan. In some countries, however, the rate may be reviewed periodically or linked to an index, for example, the rate for State loans. It may be added that such arrangements apply only to loans granted for a protracted or an indefinite period.

Lastly, a comparative study of rates of interest on housing loans has shown that the rates on short-term loans granted during building are, on the whole, extremely high, sometimes even higher than the rate for long-term funding loans.<sup>(1)</sup> This is true of loans granted to the firms responsible for the building, but

(1) Sample Comparative Table of Rates of Interest

Country	Short-term loans during building %	Long-term first mortgage loans %
Finland	8 - 10	8 - 10
France	8 - 9	6 - 7
Germany	8 - 9	5 - 6.5
Italy	10 - 14	7 - 8
Sweden	3.5- 4.5	3 - 3.5



perhaps even more so of loans granted to owners building their own homes.<sup>(1)</sup> The main reason appears to be that such loans cannot usually be secured by a mortgage and that in any case houses under construction but not completed frequently have no market value, especially where the work is not very advanced. In some countries housing legislation may affect these rates of interest by increasing or reducing lenders' risks during the period of construction. At any rate it has been thought worth while to draw the attention of governments to this point, since it is a not unimportant cause of increased building costs and an obvious obstacle to the development of housing policies.

#### Miscellaneous financial charges

But in order to form a true idea of the cost of real estate loans account should also be taken of the other financial charges entailed in such operations.

Some of these arise during the actual conclusion of the loan agreement, e.g. the emoluments of the solicitors, notaries public or brokers engaged to prepare the deeds, the cost of taking out a mortgage, registration and survey expenses, stamp-duty on the agreement, the discount which the borrower must allow in order to obtain the funds<sup>(2)</sup> etc. It makes little difference whether these charges are deducted from the loan itself or paid direct by the borrower, since in the latter case he is obliged to borrow more to meet them.

Worked out in relation to the part of the loan which the builder can actually devote to the building operations, the actual rate of interest is therefore much higher than the nominal one. It may be added that it is difficult to ascertain the scope of such charges in the various countries, since they vary with the type of

---

(1) With the exception of certain medium-term loans in the form of re-discountable bills.

(2) e.g. for loans from the Real Estate Credit Institution in Italy (see Chapter V).

agreement and, especially with the amount of the loan. But they may be very roughly estimated at, for example, 5% of the loan in Austria, 10% in Belgium, 5-10% in France and 10 - 20% in Italy.

The annual burden on the borrower is also sometimes aggravated by further charges (e.g. taxation or commission on interest); but this point was not specially investigated.

Although these miscellaneous charges are of considerable significance, they do not always appear to receive special attention from housing departments, despite the latter's anxiety to reduce the cost of houses, and they do not in fact emerge clearly in the calculation of costs, being frequently made up of a large number of separate charges each small in itself.

## II. SPECIAL TERMS APPLICABLE TO STATE LOANS

As was stated in the previous Chapter, one form of State aid in the financing of housing is the granting of loans to builders in general or to certain specified builders. The terms on which such loans are granted are generally such that the total annual charges on the builder, allowing in particular for other loans which he may possibly have to raise, can be covered by rentals or, where he occupies the house himself, by a reasonable proportion of his income. But this result has been achieved by a variety of procedures.

Some States make loans on the usual terms as regards interest and redemption, the difference between the annual charges on and income from the house being offset by additional subsidies from the public authorities not subject to the same terms as the loans. The most typical example of this system is to be found in the United Kingdom, where the Treasury makes loans to the local authorities on the usual terms,<sup>(1)</sup> while also granting them a monthly subsidy per dwelling built.

Other countries, on the contrary, grant loans at reduced rates of interest which are fixed once for all, together with the duration of the loan and redemption

---

(1) Actually at rather less than the official rates of interest.

terms, when the agreement is signed. Examples of such loans are those granted (at 3% or free of interest, for an average period of 46 years) by the Federal Housing and Reconstruction Funds in Austria, or those granted by the French Treasury to low-cost housing organizations (for 30 or 65 years as the case may be, at a rate of interest of 2%, although that rate may be reduced for the first few years and redemption deferred).

But most of the countries studied grant loans on much more flexible terms, allowing for variable rates of interest or redemption periods, or both, adapted to (1) the financial charges on the borrower, and (2) the real or theoretical income from the house. The following may be mentioned as examples of the systems in operation.

Norway: The State grants an initial loan on specific terms (2.5% interest, as compared with 3% in Sweden, repayment in fixed annual instalments over periods of 25, 40, 45 or even 100 years). It may also advance a further loan (partly provided by the local authorities), which is free of interest and not at present repayable, although it may become so later - or bear interest - should the profitability of the houses improve, e.g. as a result of increased rents.

Sweden: The Swedish system resembles the Norwegian; but the initial State loan is normally only secured by a third mortgage (so that there is much more scope for private financing). For the first ten years the rate of interest is not fixed; but when the agreement is concluded the State guarantees a fixed rate of interest on the first and second mortgage loans raised on the money-market. If the rates on these loans change owing to general money-market fluctuations, then the rate of interest on the initial State loan, normally 3%, is reduced accordingly. The redemption period for this loan is generally 40 years.

Germany: Under the German system the terms on which loans are granted are not fixed by law. The redemption rate is limited to 0.5% per annum so long as the loans from financial institutions or private individuals are running, being increased at the end of that period by the fraction of the rental then freed. Loans are supposed to be fully redeemed in approximately 60 or 65 years. Interest may vary from 0% to 4% according to the proportion of rental earmarked for interest on

capital, and allowing for the fraction of that proportion which is required to repay the builder's initial outlay and interest on the original loan.

Denmark: Under the Danish system a loan must, as a rule, be repaid in fixed annual instalments of 4.5% of the capital, which includes 3.5% for interest, 0.2% for reserve fund and the balance for redemption; but redemption may be deferred for a maximum period of 20 years, depending on the rental, or the interest reduced by up to 2%, or both of these advantages may, where appropriate, be granted together -- and, it may be added, partially or totally withdrawn if the profitability of the house improves.

Netherlands: In 1948 a system was introduced to assist public authorities and non-profit-making associations, whereby, in addition to an initial loan repayable by fixed annual instalments of 4.5% based on the income from the house, a second loan free of interest could be granted to cover the difference between the capitalized value of the permissible rentals and the building costs. The second loan could become interest-bearing if rentals increased.

Finland: Under the Finnish system the redemption rate is laid down in the agreement. (For stone-built houses it is 0.5% per annum for the first 5 years, 1% for the next 5, and 2.6% for the last 35 years; for timber houses, 2% for the first 5 years and 4% for the next 21 years). If the rate of interest is not laid down in the agreement, it would now be 1% per annum.

These systems are, in general, typical of a period of instability in prices and, especially, in rentals. Although it may be necessary to assist building at the present time, it would be anomalous if the owner drew profit in the future from such direct or indirect subsidies in the event of his income being substantially increased either by currency devaluations or merely by a re-assessment of rentals. Certain governments have therefore striven to ensure repayment in such circumstances.

In addition, the duration of private loans is in no sense dependent upon the "life" of the house, but is generally shorter. It is therefore reasonable that annual instalments on State loans should rise when private loans are redeemed, since other financial charges are then reduced. However, the general policy of

States appears to have been not to draw a parallel between redemption and writing-off (depreciation), but merely to extend the redemption period in order to reduce present charges, some reducing rates of interest (and even redemption instalments) during the early years and increasing them later.

It should also be pointed out that the security required for State loans is so arranged in most countries as not to prevent the raising of other loans at normal rates. In fact, States often make do with second mortgages - and even, in the Scandinavian countries (particularly in Denmark and Sweden, where other institutions grant second mortgage loans) with third mortgages. But France is an exception to this rule.

In addition, in some countries the local authorities guarantee repayment of the loan in order, for example, to enable a higher sum to be lent.

✓ It is questionable whether the mortgage security required by certain States for their loans is always really necessary and whether such a formality, which is comparatively costly, could not be eliminated. It is obviously essential to require such security in the case of houses belonging to private individuals, who are not under the close supervision of the public authorities. But it hardly appears necessary when the owner is a local authority, a public institution or an association or society in the administration of which the State in one way or another exerts a major influence, or over which it exercises close control. The risks are then negligible and do not justify a general provision which complicates the financing of housing and is hardly likely to be acted upon save in exceptional cases.

*the  
Chapter  
conforming*

Chapter VII

ASSISTANCE BY PUBLIC AUTHORITIES: GENERAL CHARACTERISTICS<sup>(1)</sup>

The first point noted, on studying the housing policy pursued in the various countries, is that as far as the improvement and renovation of old houses are concerned, assistance from the public authorities is generally limited to the repair of buildings damaged during the recent war and certain works in connection with rural housing. Whereas all States provide financial facilities for the repair of war-damaged property either as part of their general housing policy or under war-damage legislation, only two of them - France and the Netherlands - appear to provide assistance for the renovation or improvement of old houses which escaped war-damage.

Conversely, in all the countries studied except Switzerland, most of the new housing now being built is assisted in one way or another by the public authorities. The proportion of assisted housing to the total number of dwellings built annually ranges from about 70% (Western Germany, Denmark) to 100% (USSR). In Switzerland, the provision of housing subsidies by the Federal Government came to an end in 1950, although a number of cantons and communes continue to provide assistance for house-building.

Finally, in several countries (Belgium being a case in point), special facilities are granted to families wishing to buy new houses for personal occupation.

Nevertheless, payments by the public authorities represent a fairly large proportion of the capital invested annually in house-building. It is difficult, however, to supply exact data on this point, such assistance taking the form not only of financing facilities proper (loans, capital subsidies, building by direct labour) but also of other measures solely designed to make up, in whole or in part, any yearly deficit in property management accounts (interest reductions, annual

---

(1) Taxation policy in respect of housing is not dealt with in this report.

subsidies etc.). However, for the purposes of obtaining a preliminary idea of the proportion of building investments accounted for by State payments, the latter category of assistance may be regarded as negligible, since by and large it still represents at present only a small fraction of the total payments made each year by the public authorities. Subject to that proviso, present capital investments in housing<sup>(1)</sup> may be regarded as being derived from public funds to the extent of 100% (or nearly so) in the USSR, over 75% in Norway and the United Kingdom, 50-75% in France and the Netherlands, 40-50% in Western Germany, Belgium, Finland and Italy and 25-35% in Denmark and Sweden. In Switzerland, the percentage is much lower, but no figure can be given<sup>(2)</sup>

No precise figures can be given for the assistance rendered by the public authorities in making up the yearly deficit in the management accounts of assisted housing. Such assistance is sometimes rendered by the actual payment of annual subsidies but a different procedure is adopted in other cases - reduction of the rate of interest on State loans (or suspension of redemption payments or extension of the redemption period); payment of capital subsidies, before or during building, permitting a reduction in the amount of ordinary loans; and the letting of houses built by direct labour at comparatively low rents. What is certain, however, is that the amount of such assistance is necessarily greater the lower the rents (especially of new houses) and the higher the rate of interest normally obtaining in the financial market. In this respect, Austria, Finland, Italy and France come off particularly badly; Sweden and Switzerland, on the other hand, appear to be in a relatively good position.

Financial assistance for housing constitutes a greater or lesser burden on public finance, whether it be the exchequer or the budget, according to the country concerned. Here again, no details can be given, but to provide some idea of the comparative effort represented by the annual outlay of the public authorities, an attempt has been made to work out its percentage ratio to the

---

(1) For work on old and new housing alike.

(2) See also Annex B - the synoptical study made in respect of 1949.

national income of each country, and its cost in Swiss francs per head of the population. The figures are set forth in the following table, which does not include Austria, Finland and the USSR:

Volume of payments made in 1950 for housing purposes

	<u>Percentage of national income</u>	<u>per inhabitant, in Swiss francs</u>
Switzerland	less than 1	less than 20
Italy	1 - 1.5	-
Denmark	1.5	about 40
France	2	40 - 45
Belgium	2	50 - 55
Sweden	2	50 - 55
Western Germany	2 - 2.5	35 - 40
Netherlands	2.5 - 3	45 - 50
United Kingdom	2.5 - 3	60 - 70
Norway	4	about 75

These figures may, however, give a mistaken idea of the effort put forward and of the future liabilities thereby incurred, since they take no account of the form of the assistance given, and especially of the scope of the commitments entered into by the State as regards future years. Some countries concentrate on a policy of granting loans or building by direct labour; in that case, there will be cash returns (repayment instalments or rents) corresponding to the amounts now being paid out, and provided assistance stays at its present level, the actual financial burden will remain constant or even diminish, according to the terms on which the public authorities themselves have obtained the requisite funds. Where assistance mainly takes the form of outright capital subsidies, the actual financial burden will increase or stay at the same level, conditions being equal, according as to whether the capital is derived from loans or taxes.



Where assistance takes the form of annual subsidies, the financial burden will increase substantially<sup>(1)</sup>, if that policy is continued, until the final instalments due on the initial undertakings have been paid over. Actually, various forms of assistance are in evidence in each of the countries concerned. However, certain tendencies appear to predominate in individual cases.

Broadly speaking, the financial techniques employed in a particular country depend primarily on the trends of the housing policy pursued by its government. Such policy is, of course, guided by a number of considerations: the general economic situation of the country, the state of the financial market (and of public finances), the level of rents, the general social structure, the varying degree of urgency of housing requirements in different parts of the country, and even more, perhaps, the influence on public opinion of certain groups or certain social categories. At rock-bottom, however, it is nearly always found to be based essentially on the party doctrines, whether implicit or expressed, of the political groups in power.

In a very general way, a distinction can be made between the countries which confine assistance to certain categories of builders and those which provide assistance to all builders without exception (in some cases in varying degrees and in different forms).

Countries in which State assistance is confined to certain categories of builders are Belgium, Italy, the United Kingdom and the USSR.

The two last-named countries are both characterized by the pre-eminent degree to which their housing economy is planned. Although State assistance in those countries is confined to certain categories, there is no housing construction by builders outside those categories in the USSR, and extremely little in the United Kingdom (less than 2% of total new building in 1950). However, the

---

(1) Where, as often happens, loans are made at reduced rates of interest, the operation is tantamount in essence to a loan at the normal rate, plus an annual subsidy in the form of interest reductions.

category of builders receiving assistance from the public authorities is not the same in each case. The USSR, after having in turn encouraged building by the co-operatives and the local authorities (local Soviets), at present bases its policy on encouraging building by individual undertakings and services as employers of labour, staff occupation of the accommodation provided being apparently bound up in many cases with the labour contract. Building by individuals wishing to own their own homes is also encouraged. The latter form of assistance, however, still appears to be a minor factor in housing construction policy (15% in the 1946-50 Five-Year Plan). In the United Kingdom, on the other hand, building is mainly done by the local authorities, and only to a very minor degree by private individuals receiving compensation under the war-damage legislation and by certain non-profit-making bodies (housing associations) enjoying State support. No assistance is given to private individuals wishing to build or buy a new house for personal occupation.

In the case of Belgium and Italy, assistance by the public authorities, while confined to certain categories of builders, appears to cover only a fraction of total new construction, and unassisted private enterprise still occupies a prominent place. The only recipients of assistance are low-cost housing bodies of a public nature,<sup>(1)</sup> individuals or organizations building houses intended for owner-occupation<sup>(2)</sup> and owners of war-damaged houses reconstructing their property. But whereas in Belgium the amount of assistance given to the last-named category is very considerable and represents a high proportion of present housing expenditure by the public authorities, it appears to be much smaller in Italy, State efforts being mainly centred on low-cost housing. The two countries are deliberately pursuing a broad policy of encouraging workers to become owner-occupiers.

---

(1) The housing and low-cost housing associations in Belgium (although not possessing that status in law and including private shareholders), and the "INA-Case" in Italy, may be regarded as coming into this category.

(2) and to prospective occupants to assist them in buying new houses.

Countries in which State assistance appears to be given to all builders without exception are Austria, Denmark, Finland, France, Norway, Netherlands, Sweden, Switzerland and Western Germany. However, the assistance in question does not apply to all categories of building, but only to certain of them, covering a wider or lesser range according to the country concerned, while precautions are taken to see that assistance is not misapplied. In addition, specific categories of builders in many cases enjoy preferential treatment, both de facto and de jure, as regards State financial assistance.

In the Netherlands, it would appear that non-profit-making bodies (public or private) or owners of war-damaged property have been responsible for practically the whole of new housing construction. While the scope of State assistance is wider in principle than in the United Kingdom, housing policy in practice is on very much the same lines in both countries. One point of difference in the Netherlands is that the non-profit-making agencies responsible for building include co-operatives as well as the local authorities; while the reconstruction of damaged houses under war-damage legislation occupies a much more prominent place. Both countries discourage house building by would-be owner-occupiers. In Austria, the position seems to be fairly similar, war-damage victims being granted much greater facilities than other builders.

In the four Scandinavian countries (Denmark, Finland, Norway and Sweden), special war-damage legislation is either non-existent or plays an insignificant part in housing policy. Another feature is that the facilities accorded to non-profit-making bodies (local authorities, co-operatives etc.) and prospective owner-occupiers are substantially greater than those accorded to other builders. But whereas in Norway the State supplies all applicants with the major part of their finance, the Finnish authorities appear to do so only in the case of non-profit-making bodies and small owners, other applicants receiving only subsidiary financial assistance. In Denmark and Sweden, the State contribution towards financing non-profit-making bodies is less extensive, and is even smaller in the case of other applicants.

In Germany, on the other hand, State assistance seems to be at the same level whatever the category of builder.<sup>(1)</sup> The same applied in Switzerland during the period when the Federal Government assisted housing (up to 1950). In both countries, the only limitations relate or related to the size of the building (floor-space etc.) or conditions for occupation (rent chargeable, occupant's income etc.). The limitations imposed are far more stringent in Germany than they were in Switzerland. Of the conditions with which applicants for State assistance of any kind have to comply in the various countries under review, those laid down in Germany appear to be the most rigorous of all.

The primary feature distinguishing present policy in France from that of other countries is the amount of assistance given to owners of damaged property under war-damage legislation, this being far in excess of that given in other sectors. In consequence, payments made under this head at present make up the bulk of State expenditure on housing. The relative importance of these payments will probably diminish during the next few years if the new measures introduced two years ago to stimulate building continue to develop. As for the other sectors, it is hard to judge whether any of them receive preferential treatment in view of the diversity of the methods used. As in the case of the two countries just mentioned, assistance is now given to all builders, although there are conditions (albeit fairly liberal ones) as to the size of dwellings and the qualifications of the occupants. French policy also has another feature which distinguishes it from that of other countries: assistance in respect of existing houses (grants for improvement or renovation; extension of housing allowances for large families to occupants of old houses).

Despite their diversity, the financing techniques employed can always be summed up as belonging to one of the four basic categories listed below:

- building by direct labour
- loans

---

(1) Although the non-profit-making bodies now appear to be playing a leading rôle.

- subsidies
- guarantees

Building by direct labour by the State itself is rarely practised. On the other hand, the local authorities are responsible for a great deal of building of this kind in certain countries (probably about 80% of the total in the United Kingdom, 30% in the Netherlands, and 15% in Sweden). In other countries, while the local authorities take little or no direct part in building, other public bodies do so to a greater or lesser degree (USSR, Italy, Belgium, France).

Except in the USSR, the financing of building by local authorities or public bodies is invariably covered for the most part, if not completely, or almost so, by State loans.

In Western Germany, Austria, Denmark, Finland, Norway and Sweden, loans represent almost the only form of State intervention, whatever the housing sectors concerned. The terms and conditions on which they are granted (total amount, reduction of interest rate, duration, arrangements for redemption) enable the governments to adjust their assistance to economic conditions as they affect housing (level of rents, financial market conditions) and the general policy which they intend to pursue. In the remaining countries, other means are used in addition to State loans. In the United Kingdom, State loans granted on terms fairly closely resembling those of market loans are supplemented by annual subsidies intended to balance operating accounts. In the Netherlands, State loans are not granted except to non-profit-making bodies, public or private, and (as an addition to compensation), to owners of damaged houses. As far as the former are concerned, the tendency is to reduce them, but they still make up a substantial part, if not the bulk, of annual capital investments in housing construction. As in the United Kingdom, loan conditions coincide fairly closely with market terms, except that non-profit-making bodies receive an annual subsidy. In France, the grant of State loans is restricted to non-profit-making bodies and individuals in low-income groups building their own homes. At present, these loans constitute only a fairly small part of capital investments in housing construction and State expenditure on housing, but are fairly rapidly assuming greater importance. In the USSR, State loans are designed solely to facilitate house-building by would-be

owner-occupiers, and are at present limited to a period of seven years. In Belgium and Italy, State loans are merely employed as a temporary contribution, in sectors which the State wishes to encourage, when the usual financing bodies are unable to raise sufficient funds on the market. The only country in which the policy of granting State loans is not applied is Switzerland.

The practice of granting subsidies is applied in all countries where loans are not the sole means of State intervention; and even in countries where such is the case, they are sometimes granted by the local authorities. (In the case of the USSR, however, it would be incorrect to speak of subsidies, in view of the very nature of the economic structure.) Of the various forms of subsidies, a distinction should be made between those given in the form of lump-sum capital payments, and those paid out in annual instalments.

The former system is generally applied when giving assistance to owners of war-damaged property. Except in the case of Austria, war-damage legislation in the various countries provides, in fact, for the payment of compensation in a lump-sum either to all claimants (Belgium, France, Norway, United Kingdom) or in certain individual cases (Italy, Netherlands).<sup>(1)</sup> Apart from this, there are other cases in which capital subsidies are granted. In Belgium, a grant (10-15% of the cost of construction) is given under certain conditions to anyone buying a new house or having one built, and this concession may be combined with others. In the Netherlands, since 1950, State assistance to private builders (other than non-profit-making bodies) has taken the form of a capital grant calculated on the basis of building space and subject to certain conditions. This grant may amount to an average of 30-40% of the cost of construction. Finally, in Switzerland, financial intervention by the Federal Government in the past took the form of capital subsidies, this method being still applied by individual cantons or communes.<sup>(2)</sup>

---

(1) Under the provisional legislation.

(2) There are other forms of capital subsidies, although of far less importance, such as subsidies for rural housing in France: see Chapter VIII.

Several countries employ the system of paying subsidies by annual instalments, whether for housing in general or for a particular sector, the basis of calculation and the period of payment varying from country to country. The following appear to be the main types: In Belgium, they generally take the form of contributions towards interest charges; in other words the State assumes responsibility for part of the interest rate on loans made by parties other than itself<sup>(1)</sup>. In France, a system of grants for housing construction has been in operation since 1950, this constituting the key element in the policy of encouraging private building. The grant takes the form of a fixed sum per square metre paid annually over a period of 20 years, and cannot be combined with the facilities granted to building in other sectors. In the United Kingdom, a fixed annual grant per completed dwelling is given to State-aided non-profit-making bodies. In the Netherlands, annual instalment grants are likewise given to non-profit-making bodies. In Italy, annual instalment grants formed the main system of financing employed by the State before the establishment of "INA-Casa", and still represent one of the main elements of its policy. The grants usually amount to 4% per year of the cost of construction, and are paid to non-profit-making bodies (public or private) specializing in low-cost housing, on the one hand, and to owners of war-damaged houses on the other, being paid over a period of 35 years in the first case and 30 years in the second.

Finally, the State or local authorities, in a number of countries, guarantee loans by financial bodies, as already noted in the preceding chapters.

To sum up, while the public authorities, in all countries except Switzerland, give substantial assistance towards the financing of housing, the scope of such assistance varies widely between one country and another. Furthermore, the form of assistance differs to a greater or lesser degree according to the State concerned.

The three major sectors in which intervention by the public authorities is a prime factor are:

---

(1) State loans at reduced rates can also be broken down, as stated earlier, into a normal loan and a reduction of interest charges.

- the financing of non-profit-making bodies (public or private);
- assistance to private individuals wishing to build a house for family occupation;
- reconstruction by their owners of war-damaged houses.

Even where certain facilities may be granted to all builders State assistance seems to preserve very much the same characteristics. It clearly emerges, in fact, that generally speaking these facilities either represent no more than a small fraction of State assistance to building, or are directed to one of the above aims, in that houses constructed privately (by associations or individuals) are in many cases built either by industrialists wishing to assist in providing housing for their staff on a non-speculative basis, or by persons wishing to provide their own accommodation.

By and large, however, the planning element in State policy is becoming more and more marked. This is evident not only from the fact that in certain countries State assistance is confined in practice to bodies subject to its control (USSR, United Kingdom, Netherlands) and that in others the rôle of these bodies has considerably expanded since the war (Sweden, Denmark, Finland and even Belgium, France and Italy), but also, and perhaps even more clearly, from the fact that the conditions under which these facilities are granted are resulting in increasingly active intervention by government departments, or in a stricter control of building (site arrangement, plans, prices, etc.). In some countries, this type of planning seems to be taken as a matter of course, although in others the desire for a freer hand for private enterprise is still more or less in evidence. To some extent, this trend is the direct result of the increasing rôle now being assumed by the public authorities in the financing of housing (since they naturally have to take steps to see that the sums paid out by them are used to good advantages), but in certain countries the converse is also true.

In some countries, but not in others, financing methods vary according to the category of builder and the housing sector concerned. In the Scandinavian countries, Western Germany and Austria, the methods applied appear to be identical,



although the amount of assistance varies.<sup>(1)</sup> In Belgium, France, Italy, the Netherlands and the USSR, on the other hand, different systems are employed in each case.

Finally, it should be noted that in practically all countries the local authorities - quite apart from the State - often play an important part in housing finance policy, whether engaging in building themselves, participating in building organizations or providing the latter with assistance in the form of subsidies, guarantees, grants of land etc.

---

(1) Except in the case of war-damage legislation in Austria and Norway and the special measures mentioned in Chapter XI for all the countries concerned.

## Chapter VIII

### METHODS EMPLOYED FOR FINANCING NON-PROFIT-MAKING BODIES

The housing conditions of the poorer sections of the community have long, if not always, been a source of public concern in the various countries, and efforts have been made, both publicly and privately, to remedy the worst cases. The first laws on the subject date back almost a century<sup>1)</sup>, and the first staff housing schemes undertaken by employers probably belong to the same period. But all these efforts were of a somewhat sporadic nature and were not very successful in overcoming the evils they sought to remedy.

The working class housing problem was widened by the economic and social developments which, as briefly described in Chapter III, gave rise to the general conviction that the housing conditions of most, if not all, workers were inadequate, while accentuating the disparity between rentals and a normal economic return on house property. Existing laws on the subject were then progressively extended or amended, and new ones enacted. This legislation led everywhere to the establishment and development of public or private non-profit-making bodies, which came to play an increasingly important part in housing construction.

In certain countries, the activities of these bodies were actually extended to cover the housing of the population as a whole (with the sole exception of luxury dwellings). This tendency may be traced back to several causes: a leveling up of the housing conditions of the various social classes; the adoption in town-planning theory of the principle that housing estates should cater for persons of varied origin and not be restricted to particular classes; and - in certain cases - the political leanings of the governments concerned. At present, it seems to be affecting an ever wider range of countries.

Whatever the scope of their activity (which varies from one country to

---

1) There may be others of an even earlier date.

another)<sup>1)</sup>, the public or private non-profit-making bodies invariably represent the category of builders most favoured by the public authorities. In some cases, as already noted, they are the only builders enjoying the latter's assistance.

#### I. MAIN CHARACTERISTICS OF NON-PROFIT-MAKING BODIES ENGAGED IN BUILDING

Although differently organized in each country, these bodies can be roughly classified into three groups:

- co-operatives set up by the persons who are to occupy the accommodation provided;
- private societies or associations whose members are not the occupiers of the accommodation provided;
- public bodies or authorities.

##### Co-operatives

The co-operative movement has developed widely in a whole series of countries. It appears to be playing a leading rôle in building in Finland, Denmark, Norway, Poland, Netherlands, Sweden, Switzerland and Czechoslovakia. In Germany, its rôle appears to be less considerable, and in Belgium, France and Italy to be a very minor one. In the USSR, the co-operative movement was encouraged at one period (up to about 1936-1937) but seems to have suffered a setback.

Leaving aside the co-operatives set up by would-be owner-occupiers<sup>2)</sup>, the housing co-operatives possess the common feature that the housing built by them remains their own property, the co-operators being mere tenants. In some countries (e.g. Poland and Czechoslovakia) the relevant laws and co-operative statutes permit members to purchase the houses in which they live, either by a lump-sum payment or by instalments, but this option is not normally granted. Usually, even where a

---

1) In Italy, for example, their activity extends only to the poorest classes; in the United Kingdom, it covers the entire population.

2) See Chapter IX below.

co-operative is wound up, its house property has to be turned over to the local authority or to another non-profit-making body.

The rights of co-operators in respect of the dwellings which they occupy vary in scope. In some cases (e.g. in the Netherlands), the co-operators are merely tenants. Elsewhere (e.g. in Switzerland and the Scandinavian countries), they have a permanent contractual right of occupation so long as they remain members of the co-operative, and can hand on that right to their children together with their co-operative share certificate; but they are debarred from sub-letting, and in disposing of their rights must conform to certain rules. In some cases, they are free to make internal alterations to their dwellings<sup>1)</sup>.

Generally speaking, the rents are based entirely on the charges involved (including the financial charges) and the co-operatives are free to reduce the rents as and when the charges diminish (e.g. following the repayment of loans). But this does not seem to apply in all countries; in the Netherlands, the society cannot retain more than 20% of the surplus in the annual management account and must hand over any excess to the local authority as compensation for the facilities and subsidies granted to it. In Denmark, the 1933 and 1938 laws stipulate that rents are to be regulated, and that any surplus remaining after the capital is written off should not accrue to the co-operators but should be used for further building.

It is the rule in every country that co-operators, on joining the societies, must pay a contribution, the amount varying according to country and co-operative; in some instances, it seems to be as much as 10% of the cost of the dwelling, although the usual figure seems to be no more than 5%. In some countries, the contribution may bear interest within limits fixed by law; in others, the interest is paid, in practice, in the form of a rent reduction. The principle of paying a contribution has been readily accepted, whether because co-operators considered the lower rent for the same quality of housing to be adequate compensation or because the first real upsurge of the co-operative movement took place at a time when the payment of a premium and "key money" by an incoming tenant

---

1) In Germany, this right seems to be a genuine property right, entailing registration at the mortgage registry office.

had become the current practice, even though forbidden by law, as a result of the acute housing shortage. (1)

When a co-operator proposes to resign, he can usually do so by selling his share to another person who replaces him as a co-operator and takes over his house. That transaction is always subject to control by the co-operative itself in order to prevent speculation and the entry of undesirables. In Sweden, the selling price is equal to the amount of capital paid back on the flat. Usually, the co-operator may return his flat to the co-operative, which then refunds his contribution, less the amount already redeemed. Under certain statutes, however, co-operatives are allowed a period of several years in which to repay this sum, the original purpose of this precautionary measure being to safeguard co-operative funds at times when there were large numbers of vacant premises on the market.

Invariably, the co-operatives are private societies or associations. Generally speaking, each individual co-operator has only one vote at the general meeting regardless of the amount he has contributed. Some statutes allow persons other than the occupiers to be members of the co-operative or to be represented on the board of management (public authorities, private philanthropists etc.), but in others this is forbidden. (2)

In all countries co-operatives enjoying special benefits from the public authorities (whether State or local) are usually subject to some degree of control.

---

(1) This appears to have been the case in Switzerland, where the co-operatives developed extensively at the time of the housing crisis following the 1914-1918 war.

(2) In the Netherlands, a number of societies approved under the law of 1901 (governing assistance for low-cost housing) have not assumed co-operative status, although constituting de facto co-operatives, in order to be able to admit non-beneficiaries (such as the mayors of communes) to membership - a practice which is forbidden under the legal provisions governing de jure co-operatives.

Control seems to be particularly marked in the Netherlands, where it is exercised by the local authorities, and in Denmark, Poland and Czechoslovakia. In Norway, the local authorities have a representative on the board of management of each of the societies which they assist financially.

In most countries, the houses are built and administered, when completed and occupied, by the same co-operative. In the Scandinavian countries, and particularly Sweden, however, the organization is on different lines. The actual building work is done by local co-operatives, known as the "parent societies", which collect members' savings and secure loans and subsidies. Once the building is completed, the occupants form a "branch society", which purchases the property from the "parent society". This system seems to be particularly well-devised, since the considerations exercising builders and administrators are not necessarily identical. In Norway the rule is that the management board of the "parent society" should always include a majority of persons seeking accommodation - the object being to keep interest in new building always alive.

A final point to be noted is that in the countries where the co-operatives seem to be particularly well-developed, they generally have the backing of a powerful central body (the Federations in Norway and Sweden, the Union for the Improvement of Housing in Switzerland, etc.). These bodies, which in some cases are subsidized (e.g. in Norway), may be said to play a substantial part in housing development. In Sweden, they are genuine holding companies owning and managing a chain of industrial plants.

#### Other private bodies

Apart from the co-operatives, there are various types of private bodies (foundations, societies, associations) which contribute towards the provision of low-cost housing in Germany, Austria, Belgium, Denmark, France and the Netherlands (1)

---

(1) "Public Utility Dwellings" in Germany, "House Building and Public Utility Development Associations" in Austria, "Low-cost Housing Societies" in Belgium, "Public Utility Building Societies" in Denmark, the "Moderate Rental Building Societies" in France and "Approved Associations" in the Netherlands.

Similar bodies also exist in the United Kingdom and Portugal <sup>(1)</sup> but appear to operate on a very small scale.

These bodies have the following common characteristics: they are non-profit-seeking and are mainly composed of persons other than the occupiers; they are covered by special legislation and are granted special facilities by the public authorities (the legislation and facilities usually being the same as in the case of the co-operatives). Originally - and their origin in some cases is extremely remote - they were often charitable or benevolent institutions. The funds with which they were provided were outright gifts, and the members and directors worked on a voluntary basis. Nowadays, capital is also put up in certain countries by industries wishing to find accommodation for their workers, the industries in question either joining existing bodies or collaborating in establishing new ones. There seem to be two reasons for this trend: on the one hand, the industries were anxious to enjoy the facilities granted to those bodies under special legislation (tax relief, subsidies, loans etc.); on the other hand the governments, for their part, encouraged such participation on the principle that where such bodies enjoy autonomy in fact, and not in name only, some of the disadvantages arising where workers are housed by their employers are avoided.

In certain countries, (e.g. France, United Kingdom), the bodies are entirely private but are generally subject to State control. In others, they are mixed bodies (semi-public, semi-private), the extent of the contribution made by the public authorities (State or local) as regards both capital invested and management varying from country to country. In the case of Belgium, where the "Low-Cost Housing Societies" have much in common with certain public services in other

---

(2) "Housing Associations" in the United Kingdom, "Remio" organizations in Portugal.

countries, (e.g. Sweden),<sup>(1)</sup> the authorities seem to hold a majority interest.

By and large, it would appear that the tendency - at any rate in the countries where these non-profit-making bodies play an important part - is for their boards of management to be basically composed of representatives of the public authorities and individual industries (employers and, occasionally, employees).

Certain types of association have no individual capital. In the case of others, the juridical form is that of a society or foundation, and they possess their own capital; in every case, however, there is a limitation on capital returns (generally speaking, the maximum figure is 5-6%). In the event of the body being wound up, the credit balance, after repayment of capital, must be turned over to a public authority or another non-profit-making body. <sup>(2)</sup>

The capital - where it exists - is nearly always very small, usually equivalent to less than one-tenth of the cost of Construction. Building is carried out almost entirely by means of loan capital.

#### Public authorities and public bodies

In no country is there any direct building of low-cost housing by the State. The bodies which do the building are the local authorities or autonomous public bodies. The provision of accommodation for State employees, in certain cases constitutes the sole exception to this rule. Everywhere the State exercises control over the local authorities and public bodies responsible for building.

---

(1) Cf. the Finnish system of "semi-municipal" flats described in Chapter IX.

(2) In some cases, however, the persons putting up the capital, once it has been repaid, may be allotted part (although a very small part) of the assets.



Such control is based primarily on the general system of supervision applicable to local authorities and public bodies in each country, but in certain instances it also has individual features stemming from special legislation; it varies in strictness from country to country. In some countries, intervention by State departments is strongly in evidence at all stages of construction (choice of architect and contractors, preparation of plans, conclusion of contracts, works superintendence etc.), and it might almost be said that the buildings, although they do not become State property, are in fact constructed by the State by proxy. It is however extremely difficult to assess precisely the degree of State intervention in each country. The extent to which the State makes use of the powers of control conferred upon it by law varies from one country to another, while these powers are exercised in different ways in individual cases according to the amount of confidence which its departments have in a particular body, or according to the real authority, and particularly the political authority, exercised by those departments; conversely, even where its powers of control are theoretically very restricted, the State has various means of bringing considerable pressure to bear in actual practice, being in most cases the party responsible for putting up the bulk of the funds.

The countries might conveniently be divided into two categories: those where the local authorities build by direct labour, and those where the building is done by specialized autonomous bodies. Most countries come into the first category, the second containing only France and Italy. The latter category, however, might also be said to include Belgium and Sweden. Since the "Low-cost Housing Societies" in the former and the "Public Utility Societies" in the latter, although subject to private law, derive their basic capital, as already stated, from public funds, and representatives of the local authorities usually constitute the majority on the boards of management. (1)

---

(1) In Finland, apart from housing built direct by the local authorities for renting, there are "semi-municipal" flats built for sale by housing societies set up on the initiative of the local authorities (see preceding chapter).

In Spain, the National Housing Institute, which builds low-cost housing, also seems to be an autonomous public body.

The "Public Offices for Moderate Rental Housing" in France are autonomous local bodies set up by the State at the suggestion of the local authorities (Departements or communes). The founder-authority has to put up the capital, known as the "endowment", either in cash or in the form of land, and is heavily represented on the board of management, which also includes a number of personages chosen for their special qualifications and representatives of the tenants (the inclusion of the latter being a fairly recent innovation).

Italy has long had her "Provincial Institutes for Building Low-Cost Dwellings", which, while operating on very much the same lines as the French Public Offices, are bodies set up by the State without the help of the local authorities. A "National Institution for Building Houses for State Employees" has been set up on the same pattern, but covering the entire country. Apart from these institutions, which date back for several decades, there is another autonomous public body, known as "INA-Case" and set up in 1949, which is now tending to become an increasingly important factor in housing policy, having been made responsible for building some 300,000 dwellings over a period of seven years. Its Executive Committee includes representatives of the local groups concerned and of the public administrations. The work is carried out under the Executive Committee's auspices by the National Insurance Institute, a private body controlled by the State.

The proportion of total house-building accounted for by dwellings built by the local authorities and public bodies varies widely from country to country. It appears to be as high as 75% in the United Kingdom and USSR, around 25 - 35% in Finland <sup>(1)</sup>, the Netherlands and Sweden <sup>(2)</sup>, 10 - 20% in Austria, Belgium <sup>(3)</sup>, France and Italy, and a much smaller percentage in the remaining countries. The general conclusion seems to be that the activities of these bodies have extended since the war and are still tending to do so. For some years, that tendency has been most marked in Finland, the United Kingdom, the Netherlands and Sweden, and

---

(1) Including housing built by the "Semi-Municipal Flat" Building Societies.

(2) Including housing built by the Municipal Public Utility Societies.

(3) Including housing built by the Low-Cost Housing Societies.

has latterly been in evidence in Belgium and Italy. Only in Austria does the proportion of houses built by public authorities and public bodies to total house production appear to have diminished as compared with pre-war.

Finally, as already pointed out, the dwellings thus built are either sold on easy terms or merely let, the practice in this matter varying considerably from country to country.

## II. Main characteristics of financing machinery

In most countries, low-cost housing is today financed in the main by the State or by semi-State bodies, but this form of financing is not the only one used, and other sources of capital also play their part.

### Various forms of State aid

State assistance, in all countries except Switzerland and the USSR, takes the form of low interest or interest-free loans. The main features of these loans have been summarised in the second parts of Chapters III and IV, and need no recapitulation. They would appear to constitute the sole form of State aid in Germany, Denmark, Finland, Norway and Sweden. <sup>(1)</sup> In Austria, Belgium, France, Italy and the United Kingdom, on the other hand, State loans are supplemented by other facilities.

In Austria, the Federal Housing Fund is empowered not only to grant loans direct, but also to give interest allowances in respect of other loans contracted by non-profit-making bodies so as to bring the rate of interest on those loans down to 3%; these allowances are granted for the term of the loan, and for a minimum period of 10 years. In addition, it can give a guarantee of settlement

---

(1) Apart from tax relief, which, however, is common to all countries (as noted in the introduction to the present report, however, no study has been made of the question of taxation as it affects housing). Furthermore, certain social groups, especially large families, enjoy special facilities in certain countries. A study is made of the latter in Chapter VIII.

in the case of loans covered by a second mortgage only.

In Belgium, the Low-Cost Housing Societies are all affiliated to a National Low-Cost Housing Society. The latter's capital is put up by the State and the provinces, and it is therefore really a public body, although not possessing such status in law. The National Society provides the finance for the local Low-Cost Housing Societies by means of advances unsecured by mortgage and repayable in 66 annual instalments of 2.35% (interest and redemption), plus a contribution of 0.40% towards expenses. The National Society obtains its funds from the State, the General Savings and Pension Fund or other sources. The difference in rate of interest between the advances it makes and the loans it contracts is covered by the State, which often guarantees the private loans as well. In the event of the National Society being repaid in advance, it re-invests the capital. It not merely acts as a financial establishment but supervises construction work and runs its own technical research department, but it never engages in building by direct labour.

In France, the State, apart from making loans to the "Moderate Rental Building Associations and Offices", is also empowered to grant them interest allowances, which may amount to as much as 4.5%, on the loans which those bodies have to contract elsewhere.

In Italy, the bodies concerned with low-cost housing, and particularly the Institutions for Building Low-Cost Dwellings, derive their funds in the main from loans - which may amount to as much as 100% of the cost of construction - granted by the Deposit and Loan Fund at normal rates, but are also accorded annual State subsidies payable over 35 years and amounting on average to 4% of the cost of construction. At the present moment, however, a considerable proportion of the work of constructing workers' dwellings devolves on "INA-Case", which is financed differently. The funds are derived partly from the special tax on wages (paid by employers and employees alike <sup>(1)</sup>) and partly from a budgetary allocation of 15 milliards a year. These funds are to be supplemented, as the building scheme proceeds, by the repurchase instalments paid on dwellings sold to occupiers, and by the net surplus accruing from rents in the case of rented dwellings.

---

(1) See Chapter IV.

In the Netherlands, the Government, with a view to reducing the volume of advances which it is required to make, has been encouraging non-profit-making bodies to turn as far as possible to other sources for loans (the rates of interest on ordinary loans hardly ever exceeding  $3\frac{1}{2}$ - $4\frac{1}{2}\%$ ). By way of compensation, it has agreed to give them an annual subsidy for the term of the loan, calculated per cubic meter and based on somewhat intricate criteria (1).

In the United Kingdom, State loans are made at  $2\frac{1}{2}$  and 3% - a figure slightly below the market rate. But there is also an annual State subsidy for housing construction amounting at present to about  $1$ - $1\frac{1}{2}\%$  of the cost of construction.

In Switzerland, there is no provision for State loans, although prior to 1 January 1950 the Federal Government granted capital subsidies at the time of construction. The subsidies in respect of low-cost housing worked out at 15% from 1942 to 1947 and 10% from 1947 to 1950. They were only granted on condition that the cantons and communes paid out a subsidy of equal total value. The system of Federal Government subsidies was abolished on 1 January 1950, but the cantons and communes still provide subsidies in certain cases.

In the USSR, building is essentially the work of industrial or commercial undertakings and public services (77% under the 1946-1950 Five-Year Plan, as compared with 8.7% for building by local Soviets and 14% for building by private individuals). Financing is covered by budget appropriations, by the profits of the undertaking or service responsible for the work, and by production economies. The funds are handled by the banks, which also keep the accounts. The existence of a fully planned economy and the fact that all the bodies co-operating in housing construction are nationalised make comparison with other countries difficult.

#### Other forms of financial assistance

Apart from recourse to the usual forms of borrowing as practised by the non-profit-making bodies in the various countries to a greater or lesser degree, note

---

(1) See the Chapter on Financing in the Netherlands (Part II).

should be taken of three types of assistance which the latter enjoy in certain instances:

- assistance from the actual occupiers;
- assistance from the local authorities;
- assistance from employers in respect of their employees.

Various methods have been adopted to draw prospective occupiers into participating in the provision of housing finance. The encouragement given to co-operatives constitutes the main method; the co-operatives always require their members to make a contribution, which, though small, is usually far from negligible. Another example worth quoting is the new German law providing that persons investing a minimum of 20% of their income in building are entitled to obtain living accommodation. Some countries, to promote participation, have also encouraged the system whereby the prospective occupier contributes his unpaid labour during his leisure hours towards the actual work of building the house. (1) In some countries, studies and experiments have been conducted to determine the best methods of utilizing such voluntary, but often unskilled, labour. But these involve technical problems outside the scope of the present report, which are only referred to here for record purposes.

Far more important is the assistance granted by the local authorities. Where they are directly responsible for building, not only are they themselves usually required to cover part of the finance but they also bear such operating deficits as are not covered by State subsidy. Although at the time of building the solvency of the management account usually seems assured, certain contingencies may nevertheless arise (failure to let, non-payment of rents or delay in payment

---

(1) This system, of course, operates mainly where the house becomes the property of the occupier, but is being increasingly applied when the building is done by non-profit-making bodies of various kinds.

by individual tenants etc.) But even where they are not directly responsible for building the local authorities often intervene:

1. by the direct grant of supplementary advances;
2. by guaranteeing loans, especially State loans (usually with a view to increasing the total sum);
3. by paying subsidies, either in a lump sum or by annual instalments;
4. by contributing land or selling (or leasing) land at low cost.

Finally, employers of labour are still making a very considerable contribution in many countries towards housing their workers. This assistance takes many forms: building by direct labour; building through the medium of autonomous bodies; participation in bodies of a non-profit-making character; sale of houses owned to the tenants on an instalment basis and on favourable terms; loans to employees to assist them in acquiring ownership.

It may be noted in passing that whereas all countries tend to encourage - although to a varying degree - such action on the part of employers<sup>(1)</sup>, some of them make a point of taking various precautions in cases where the employer retains ownership of the dwelling. In Germany, for example, an industrialist may only enjoy the facilities now granted by the State if the terms of the lease are fixed in agreement with the employees and occupation is not bound up with the labour contract. In Italy, the "Low-cost Housing Institutes" set up by industrialists have to build for sale, and are debarred from retaining ownership. Similarly, in Norway, one of the conditions governing the extension to industrialists of the special facilities given to the non-profit-making societies is that they must not retain ownership of the dwellings built.

---

(1) This might even be said to be compulsory in Italy, since employers of labour bear a share of the tax imposed on wages for house construction purposes. This applies equally to the USSR, since part of the profits of undertakings in that country has to be set aside for housing the workers. The same principle seems to apply in Spain (see Chapter IV).

In conclusion, it may be said that the building of low-cost housing, as now practised, is essentially the work of bodies of a non-profit-making nature - co-operatives, associations, societies or private foundations, public authorities or public bodies. Taking Europe as a whole, the major contribution is made by the co-operatives on the one hand and the public authorities and public bodies on the other; the remaining types of non-profit-making bodies - the private ones - appear to play a much smaller part.<sup>(1)</sup> In most of the countries, however, it would appear that the proportion of work done by the public authorities and public bodies is tending to rise.

It is somewhat hazardous to venture a figure as to the volume of housing construction covered by the present chapter. It is undoubtedly very considerable, probably representing almost half, and perhaps more, of the housing now being built in Europe. However, there are wide variations as between one country and another: the completed housing in this category appears to amount to 50-75% - and perhaps more - of total new construction in Germany, the Netherlands, Poland, the United Kingdom and Czechoslovakia,<sup>(2)</sup> to almost 50% in Denmark and Sweden, and somewhere about 30% in Austria, Norway and Switzerland, the percentage being lowest in Belgium, France and Italy (with a tendency to increase, at least in the last-named country, with the expansion of the work of "INA-Case").

In assessing the position in each country as regards the construction of workers' housing, however, account must be taken not only of the housing built under the special legislation briefly analysed in the present chapter, but also

- 
- (1) If the various bodies are judged not by their status in law but by their actual nature, as described at the beginning of Part I of the present chapter.
  - (2) In the case of the USSR, the proportion of housing built with the help of the facilities granted for owner-occupation cannot be assessed, even roughly.



of housing benefiting by State aid under the legislation governing acquisition of ownership, as studied in the next chapter. Another item to be allowed for is the reconstruction of war-damaged low-cost housing, as carried out in certain countries within the general framework of war-damage legislation, as well as housing built on any other basis, with or without State aid. It can be taken as certain that the building of low-cost housing - the word being used here in its broad sense - is on an even wider scale, and that the differences in this respect between the individual countries, as indicated in the preceding paragraph, are becoming narrower or disappearing.

The countries where the private non-profit-making bodies seem to be operating with most success are those in which they are able to draw upon the support, both juridical and technical, of well-established central bodies, whether private or governmental. There is nothing surprising, of course, about this fact, since it is clear from the very nature of those bodies that their members do not always possess the necessary qualifications to cope easily with the numerous building problems arising. It would have been interesting to ascertain whether the same applied to public authorities or organizations at the local level, but practical considerations have prevented a study of that point.

As far as financing is concerned, the amount of coverage by owner-builders is very small indeed. The capital used is derived almost entirely from loans, the balancing of accounts being entirely due to assistance on the part of public authorities, mainly the State, the assistance itself taking the most varied forms. Thus the financial advantage which might have been expected to accrue from the fact that contributions by owner-builder organizations are non-remunerable or only slightly remunerable, are barely, if at all, in evidence. It might even be asked - always from the strictly financial point of view - whether owner-building for profit would not permit larger contributions to be drawn, at least in certain countries, from owner-builders not requiring such high returns as are normally sought by ordinary market lenders; on that hypothesis, the cost of State

operations at present (whether it lends at a low rate of interest while procuring capital at the ordinary rate, or whether it assists with subsidies or interest allowances) might be assumed to be higher than if it encouraged the building of low-cost dwellings by capitalists on a profit-making basis. Obviously, the variations as between one country and another in that respect are extremely wide, according to the rates of interest obtaining and the confidence felt by the public in the stability of the currency.<sup>(1)</sup> This, of course, is merely to regard the question from the financial point of view. From the social standpoint, building by non-profit-making bodies may have great advantages which scarcely need recapitulating.

---

(1) This does not apply to housing construction carried out in the USSR, and in Italy within the framework of "INA-Case", the capital in both cases being derived from taxes or forced savings on which no interest is payable.

## Chapter IX

### METHODS EMPLOYED FOR FINANCING THE PURCHASE OF HOUSES BY THEIR OCCUPIERS

It has been common in most countries for a number of years for people of all social classes to aim at owning the houses they live in. The present housing difficulties have naturally increased the importance of the trend.

The attitude of the various governments towards this trend is not everywhere the same. The Netherlands, Switzerland, and since the war the United Kingdom, have taken no steps to encourage it, and indeed appear to be anxious rather to discourage it. On the other hand, Belgium<sup>(1)</sup> and more recently Italy, have been endeavouring to promote it. The same appears to be true, though to a lesser degree, in the Soviet Union and even in Spain. Most of the other countries provide financial assistance for the purchase of houses by the occupiers to roughly the same extent as for other types of working-class housing. In all countries, incidentally, these benefits are granted only to persons not owning other houses to live in.

We do not intend to revert to the various types of financing adopted, as they have been described in outline in the preceding chapters, and are examined in greater detail in respect of each country in Part III of this report; but it may be of interest to draw attention to:

- various lending organizations which specialize or have specialized in the past in financing occupier-ownership of houses;
- various schemes for encouraging group building of such dwellings.

---

(1) According to the 1947 census, more than 40 per cent of existing dwellings belong to their occupiers.

## I - LENDING ORGANIZATIONS

Among the lending organizations primarily concerned with financing the purchase of houses by their occupier, the following should be mentioned as bodies which play or have played an important part in this connexion:

- the Belgian "Loan Societies" and the French "Building Loan Societies"
- the Building and Savings Societies.

### The Belgian "Loan Societies" and the French "Building Loan Societies".

The Belgian "Loan Societies" are about 200 in number. They are private non-profit-making companies subject to special legislation. Special regulations apply in respect of loans made by them, the investment of their available funds, and their method of operation in general. They have to be approved by the "Savings and Superannuation" Fund, a semi-State body, and are under its supervision. The "Loan Societies" make loans to individuals wishing to build or purchase a dwelling for their own occupation, or to improve their existing dwelling. The cost of the house must not exceed a certain figure laid down in the regulations. Loans may amount to 70 or 80 per cent of the cost (including the land) or even 90 per cent in the case of new buildings - provided it does not exceed the total amount of the actual building costs - where the borrower is in receipt of a State grant. These loans are secured by a first mortgage and a life insurance policy. The interest rate is at present 3.75 per cent, and the loans are repayable by monthly instalments, the amortization period varying from 10 to 30 years according to the age and financial resources of the borrower. The "Loan Societies" raise their capital by means of loans repayable by regular annual instalments over 20 years, taken out with the "General Savings and Superannuation Fund", an organization which in Belgium centralises savings and superannuation fund deposits. This organization makes loans at a rate 0.25 to 0.50 per cent above the rate it pays its own depositors, the present rate being 3.25 to 3.50 per cent. Thus there is no part payment of interest by the State. The loan ceiling for each society is determined according to the amount of its capital and the nature of its assets.

The French "Building Loan Societies" operate on a more or less similar plan.

However:

- they seldom if ever make loans to facilitate the purchase of existing houses, a practice common in Belgium;
- they obtain their loan funds from the State; but actually the difference is hardly more than a difference in form, as the funds are made available to the Treasury by the "Deposit and Consignment Office", a public institution which fulfils more or less the same function in France as the Savings and Superannuation Fund in Belgium. The Deposit and Consignment Office grants the loans on behalf of the Treasury, is responsible for their repayment and exercises financial supervision over the societies;
- the term for which loans made by the societies are granted may be anything up to 35 years;
- the interest rate on the loans varies at the moment between 2.25 and 2.75 per cent (with partial remission of interest during the earlier years). State advances are made at 2 per cent, the same rebate applying to these also. The difference between this rate and the rate payable on funds made available to the State for such loans by the Deposit and Consignment Office is made up by the State;
- should borrowers make repayments to the societies before the due date, the latter are required to make similar repayments to the Deposit and Consignment Office, an arrangement which does not apply in Belgium. Hence, while the Belgian societies during the last few years have been able to reinvest considerable funds arising from repayments made before the due date, that has not been possible for the French societies.

#### Real Estate Savings Banks

The most typical example of the real estate savings bank system is probably represented by the English "building societies".

The underlying principle is as follows: if each of a number of persons, say ten, saves enough money to buy a house, each one of them will have to wait several years, say ten years, before he can begin building. But if they club

together, one of them will be able to build in the first year, another in the second year, and only one will have to wait for ten years. If the society is not a "closed" society, i.e. one limited to the first ten members, but one "open" to other persons wishing to build a house out of savings, the waiting period for the latecomers can be reduced as new members pay in their savings each year.

As the object aimed at by the members is not to get an income from their investment, but to obtain as quickly and as cheaply as possible the money they need for building purposes, the members are willing to accept a very low rate of interest on their savings, or even to waive the interest altogether, with the result that the society need not ask more than a low rate of interest from borrowers.

Experience in England goes back more than a century, during which the building societies have weathered some bad storms; and this experience combined with investigations, especially in the actuarial sphere, has shown that apart from small closed societies extremely limited in scope and numbers, the system can only function efficiently if capital from outside is invested to supplement members' contributions when circumstances lengthen the waiting period. The English building societies which are still entirely private bodies, obtained the funds they needed first of all by using as a backing the credit on money lent out, and secondly by accepting deposits of savings from former members even after repayment of loans; nowadays they also accept deposits from the general public. They have also managed to put by considerable reserve funds. Thus at the present time their method of operation is only vaguely reminiscent of their principles at the outset. They are virtually savings banks investing their funds in real estate loans. They played a very important part in the development of building between the wars. Today, owing to the trend of building policy in England, they are turning their attention mainly to real estate loans not connected with new construction, but they still continue to play a very important part in housing policy by giving assistance for the purchase of existing houses.

The real estate savings banks do not appear to play a very important part in any country except Germany, where they seem to have furnished about 12 per cent of the total expenditure on financing housing in 1950. The most important of

these banks in Germany are public bodies and are backed by a State guarantee which gives them the necessary security. Actually, the rate of interest they charge their borrowers would appear to be almost as high as the ordinary market rate.

Generally speaking, the amount of loans made by the real estate savings banks is higher in relation to building costs than the amount of loans granted by other real estate credit establishments. It is said in many cases to amount to 75 per cent.

## II - GROUP BUILDING

House-building by persons wishing to own the houses they live in raises one or two special problems for the following reasons:

- (1) because as a rule it is not carried out in the form of group building, i.e. in blocks of flats, or in series of houses built all at the same time. Yet at the present time, not only is group building often necessary from the point of view of town planning, but it also makes it possible at times to reduce the cost without any lowering of quality; and it is regarded as one means of promoting the industrialisation of the building industry;
- (2) because it extends to people in the lower income brackets, and thus interests those who often have neither the experience nor the ability to discuss details with contractors and architects.

The establishment of private loan societies is not sufficient to solve these problems, though such bodies sometimes furnish considerable technical assistance to their members. Hence there are special institutions which build houses for purchase by the occupier. In addition, certain forms of ownership have been developed in various countries to encourage group building while maintaining the individual ownership of the dwelling.

First of all, we find in most countries, though sometimes under different names, co-operative societies formed by persons all desirous of building a house of their own, but who leave the carrying out of the scheme and the financial

responsibility to the co-operative<sup>(1)</sup>. Societies of this kind, at any rate when they build houses of the working-class type, are subject to special legislation and receive State support. One of the schemes which appears to be common to a number of countries (Belgium, France and Italy in particular) works as follows: on joining the Society, each shareholder subscribes shares for an amount equivalent to the cost of his house, but pays up only a small proportion (e.g. one-tenth). The remainder of the shares are paid for by regular annual instalments. Once the shares are completely paid up the house becomes the property of the share-holder, his shares are cancelled, and he withdraws from the Society. Until then the house is the property of the Society, and its occupier is merely the tenant. Probably other schemes exist in which the transfer of ownership takes place as soon as the building is completed, the Society's contract with the member then being turned into a loan contract covering the portion of the cost still remaining unpaid.

Actually, landlords' co-operatives do not appear to have developed to any great extent in any country. The reasons for this appear to be:

- the individualism of the persons wishing to become owners of their houses; this makes them reluctant to join co-operatives;
- the fact that there are no powerful bodies to back the action of the co-operatives. Thus it would appear that co-operatives building working class houses only develop if their members and those in charge are assisted and advised by efficient central organizations<sup>(2)</sup>.
- the conditions governing the amortization of loans. In all countries, loans granted to co-operatives of this kind are limited to 25 or 30 years,

---

(1) Unlike the "tenants' co-operatives" discussed in the preceding Chapter, the "landlords' co-operatives" in question do not retain the ownership of the houses they build. The houses become the private property of the occupiers, who withdraw from the co-operative as soon as they have paid for them.

(2) See the example of the "tenants' co-operatives" given in the next Chapter.



since in one way or another the house becomes the property of the individual and does not remain part of the assets of a society with a lifetime longer than the average life of its members.

The Finnish system of "semi-communal flats" seems to be organized on somewhat similar lines to these co-operatives. Under the Finnish system, building is carried out by a real estate society, the founder of which, usually the commune, is answerable for the whole of the registered capital. The shares are sold by the founder to subscribers taking flats, up to the amount of the value of the flat. The shares are not paid for cash down - payment is spread over ten years and takes the form of monthly instalments paid at the same time as the rent.

In other countries, Belgium for instance, organizations building working class houses not merely let the dwellings they build, but also sell them to their members (either for cash or by annual instalments). However, though this practice is common in Belgium, where one-third of the dwellings built by the Low-Cost Housing societies since their establishment have been sold in this way, no similar schemes appear to have been developed to any great extent in the other countries<sup>(1)</sup>. Building organizations are reluctant to part with their property (in some instances the regulations forbid them to do so), or else financial assistance for the purchase of houses by their occupiers is limited de facto or de jure to the construction of new dwellings, and is rarely granted for the purchase of existing houses.

A special form of group building for occupier ownership has been applied in Italy since the Law of 2 July 1949 came into force. Under this law, "institutions for building working-class dwellings" may be created in the form of non-profit-making legal entities or private companies, set up to build low-cost houses for purchase by the employees and wage-earning staffs of industrial establishments participating in the financing of such schemes. These institutions are granted a thirty-year subsidy of 4 per cent per annum of the building cost. They are

---

(1) In Poland and Czechoslovakia, however, co-operatives which normally build for letting, apparently often sell dwellings to their occupiers.

required to draw up a rental-purchase contract with the tenants.

It may also be mentioned that in some countries industrial firms frequently sell to their employees on the instalment system the houses they have built for their accommodation.

Apart from these organizations specializing in group building of houses intended for ownership by their occupiers, it may be mentioned that in various places such schemes have come up against the development of blocks of flats, which in many cases has made private ownership of dwellings difficult. In this connexion the legal system in many countries - Germany, Austria, Italy, France, for example - makes it possible for a flat to become private property (and even to be mortgaged) while the portions of the building common to the block remain the property of the joint owners. This system applies not only to acquisition by the occupier of the dwelling he lives in, but in a very much more general way to all acquisition of real estate; and it is tending to develop in various countries owing to the rise in prices and the reduction in private fortunes.

Chapter X

METHODS EMPLOYED FOR FINANCING THE REPAIR AND RECONSTRUCTION  
OF WAR-DAMAGED BUILDINGS

Most of the countries studied have had some proportion of their heritage of buildings destroyed during the war. The extent of the destruction varies from one country to another, ranging from nearly 20% of the real estate capital in Germany (Western Zone) and probably the USSR, down to between 2% and 4% in Norway and Finland. The proportion appears to be extremely low in Denmark, while two countries, Sweden and Switzerland, were not affected in this way by the war<sup>(1)</sup>.

In most countries there is special legislation dealing with compensation for war damage or offering special facilities for reconstruction<sup>(2)</sup>. The part played by these special regulations in the general housing policy varies in extent from one country to another. They appear to be particularly important in France and Belgium and possibly also in the Netherlands and Austria, but would appear to play a much smaller, not to say a minor, rôle in Italy, the United Kingdom, Norway and Finland. In Germany (Western Zone) and the USSR, there does not seem to be any special legislation still in force today, at any rate in the financial sphere, covering war damage.

- 
- (1) These percentages do not represent the numerical ratio of dwellings destroyed to dwellings existing before the war; they are an assessment of damage, total and partial, as a proportion of the former hereditaments. The figures have been taken from the report entitled "The European Housing Problem: A Preliminary Review" (document E/ECE/110 of 1 October 1949). Some of the figures should probably be revised, in the light of more recent assessments made by the various countries.
- (2) Dwellings are the only buildings studied in this report, whereas war damage legislation covers all types of property (industrial and commercial buildings, furniture etc.)

As soon as hostilities came to an end, and even while they were still proceeding, emergency measures were taken everywhere to find at any rate temporary accommodation for people without a roof over their head, to clear away the damage and to carry out the minimum essential work, even if merely provisional, to preserve the buildings from deterioration, as far as shortage of materials permitted. In addition, some States where there was no war damage legislation took similar provisional financial measures to assist war damage victims to reconstruct or repair their houses.

Among these emergency measures may be mentioned the methods used for making the most of surviving dwellings (requisitioning, and taxation on premises not fully occupied). The analysis of such measures does not come within the scope of this report.

Clearing up operations and temporary repairs or work to preserve buildings appear in general to have been carried out directly by the public authorities and entirely financed by them. These operations include the building of temporary dwellings, and the extent of this kind of activity has varied tremendously according to the country. There has been very little in some countries, e.g. the Western Zone of Germany, and Italy. On the other hand it accounts for between 10% and 12% of the dwellings made available as new or reconstructed housing for the population between the end of the war and 31 December 1950 in France and the United Kingdom, where it constituted the initial housing effort made by the Governments during the post-war years.

Special temporary financial measures on behalf of war damage victims were taken also during the same period, in Belgium for example, where the permanent war damage legislation dates only from the end of 1947, and in the Netherlands, where it was enacted only at the beginning of 1951.

In Belgium, all owners of war-damaged buildings were eligible for loans at the low rate of 2% from the Central Mortgage Loan Office. But the amount of the loans was limited to the market value of the building in 1939, multiplied by a factor calculated in inverse proportion to the financial and social position

of the person concerned. In addition, war damage victims included in a priority list and owning dwellings of a value not exceeding a given figure in 1939 (150,000 Belgian francs) could obtain interest-free advances direct from the State up to an amount equal at first to the market value of the building in 1939, and later to twice the value.

In the Netherlands, refunds of between 75% and 100% were made for minor repairs costing less than 3,000 florins. Where the cost of the work was higher, a subsidy was payable, equal to the difference between the value of the property before and after the damage was done, the value being calculated on the basis of the prices current before 9 May 1940. War damage victims were also eligible for additional mortgage loans from the State, part of the loans being free of interest and redemption charges, the arrangement being that the permanent legislation would in due course specify how far and under what conditions the portion in question should be repaid.

The war damage legislation at present in force in the different countries varies enormously. It covers the landlord whose property was damaged, in some cases completely, in others less so, for the repairs and reconstruction carried out by him; the amount of encouragement given to him to undertake them, and the burden imposed on the State also differ greatly.

One type of legislation is based essentially on the principle of war risk insurance. The legislation in Norway and England is of this type.

In Norway, all property insured against fire had also to be insured against war damage, by the payment of a premium of 1% of the fire risk insurance to a public body known as the "National War Damage Insurance Board". When the damage occurred, the insurance scheme was applied. But the compensation was paid to begin with on the basis of prices current in April 1940, and later on the basis of the same prices with a 50% increase.

In the United Kingdom, war risk insurance of buildings was also compulsory. In accordance with the usual insurance practice, the compensation payable is equal to the market value of the building in the event of total loss, and to the

cost of the work done in the case of repairs. Where the cost of the work would exceed the increase in value it would mean for the building, the property is regarded as a total loss. The practical result of this interpretation has been that in the case of buildings constructed before 1914 - which constituted the majority of the buildings damaged - in many cases the amount payable was the market value and not the cost of the repairs. Hence, while war-damage legislation has been helpful in the case of minor repairs (though even these were restricted in the early post-war years owing to the shortage of certain materials) it appears to have had very little effect on the reconstruction of buildings seriously damaged or entirely destroyed. Moreover, in England, according to the statistics, less than 5% of new permanent dwellings made available to the people since the war represent war-damaged buildings which have been reconstructed.

Another type of legislation is based on different principles. Here there was no compulsory insurance, and the justification for compensation is based on the principle of the solidarity of the nation as a whole in the face of misfortunes occurring to some of its members in the event of war. The compensation is based on the cost of reconstruction of the building, and not on its market value, and it may cover the whole or part of this cost. Where the compensation is only partial or where it is paid in the form of annual instalments, special facilities are also afforded in many cases to the landlord whose property has been damaged, to enable him to obtain additional loans at a low rate of interest. This type of legislation includes that applied in France, Italy and Belgium.

In France, the State refunds the whole of the cost, at the time the work is done, of repairs or reconstruction of a building to restore it to its former state, subject where necessary to an abatement for decrepitude limited by law to 20%. (Actually, this abatement is waived in the case of small dwellings). The payments are made as the work proceeds, in cash where the building is on the priority list, and otherwise in the form of bonds which may be realized by instalments at the end of one, three and five years. But in some instances where the damage is very heavy, only 70% of the refund is paid out immediately,

the remainder being payable later. War damage legislation has played an important part in French housing policy. Under this method of financing, 775,000 dwellings have been repaired and made habitable, and more than one-third of the new permanent dwellings built between the end of the war and 31 December 1950 have been financed in this way. The burden placed on the budget is extremely heavy.

In Belgium the amount of compensation is determined in accordance with a somewhat complicated scale which takes into account both the financial situation of the war-damage victim and the proportion of his assets which the damage represents. The effect of the scale is to compensate fully the less well-to-do war-damage victims, actually the great majority, and at times to cut down drastically the relative amount of compensation for the rest. The compensation is paid out in a lump sum when the work is done. In addition to this compensation, persons whose property has been damaged are also eligible for loans from the Central Mortgage Loan Office (Restoration Credits) at 2 per cent interest, the State being responsible for the difference between this rate and the ordinary interest rate for commercial loans. Again, advances of compensation may be granted by the State, following a brief examination of the files, so as not to hold up the work. The whole of this legislation also seems to play an important part in Belgian housing policy. It may be mentioned, for example, that State advances to war-damage victims in 1950 represented nearly a third of the loans made by the State for housing, and that in the same year, compensation to war-damage victims amounted to over two-thirds of the total amount paid out by the State in housing subsidies.

In Italy, compensation is paid as a rule in the form of thirty annual payments of 4% of the expenditure recognized as necessary for repairs or reconstruction. The annual instalments may even amount to 5 per cent in certain areas, for example in communes where war-damaged houses constitute more than 75% of existing dwellings. But compensation is paid in a lump sum in the case of minor damage (under 500,000 lire), for apartment houses comprising less

than six apartments and situated in communes with under 10,000 inhabitants, and for houses belonging to persons who are not well-to-do and own no other property in the commune. In this case the compensation does not cover the whole amount and may not be higher than 800,000 lire per dwelling. In no circumstances may compensation be paid until the work is finished. Incidentally, assistance was given to war-damage victims by two "UNRRA-Casas" committees in the form of advances while the work was in progress or loans at a relatively low rate of interest. The financial assistance given by this legislation to the housing policy, while by no means negligible, is all the same relatively small. Reconstruction of war-damaged buildings is carried out essentially by means of private capital.

Austria is in a case by itself, and its present legislation governing reconstruction seems to be more in the nature of provisional legislation. It is difficult to consider it as belonging to either of the above-mentioned types. There do not seem to be any arrangements for compensation to owners of war-damaged houses, though a "Fund for Housing Reconstruction" has been set up which makes interest-free loans, repayable at the rate of 1% per annum.

Under all these various laws the owner of war-damaged property is eligible for compensation or loans from the State, whatever his social position, and whatever the nature of the damaged building (owner-occupied or let to someone else). No doubt in some countries the advantages differ in different circumstances. But the main differences have actually to do with the degree of priority. The magnitude of the damage has as a rule made it impossible, especially in the countries which were worst hit and those in which the amounts payable by the State were bound to be considerable, for all the claims for payment to be met immediately. Orders of priority have been established from time to time, and according to circumstances take into account social considerations (nature of damage, type of building etc.) or other factors (technical urgency where a building is part of a group, importance of speeding up the reconstruction of certain towns etc.). Whether the State's debt to the war-damage victim, when recognized, is subject to interest or not until finally settled, is a matter which varies according to the particular legislation.



All in all, it may be said perhaps that leaving aside provisional measures, Norwegian and United Kingdom legislation has tried to solve the problems of housing war-damage victims and replacing dwellings destroyed during the war as part of their general housing policy; while the payment of compensation to owners whose houses were damaged is regarded as a separate problem. The same applies naturally to countries like Germany (Western Zone) and the USSR, where there does not appear to be any special legislation applicable at the present time for compensation to the owners of war-damaged houses. At the same time, favours are occasionally granted to such persons in these countries, within the framework of their general housing policy, in the form of special priority for obtaining loans, allocation of materials etc. On the other hand, under French, Belgian, and to some extent Italian and Austrian legislation, the grant of financial benefits to the owners of war-damaged houses is bound up with the reconstruction of the buildings,<sup>(1)</sup> the aim thus being to ensure that the victims (even where merely tenants) are provided with accommodation, and that destroyed buildings are re-built by their private owners, in other words outside the framework of other measures taken to promote housing.

Finally, it should be mentioned that in some countries, especially Belgium and France, the creation of associations of war-damage victims to foster reconstruction, has been encouraged and in some cases even made compulsory.

Thus there are co-operatives of owners of war-damaged buildings whose task it is to take over the responsibility on behalf of their members for all reconstruction operations. Once the building is completed it is handed over to its owner, and the co-operative is wound up as soon as the reconstruction of all the buildings for which it is responsible is completed. These co-operatives are governed by special legislation. They are State-controlled, and receive financing facilities and subsidies to cover their running expenses.

---

(1) In some cases compensation is payable where no reconstruction is carried out, but the amount is small, so that it is seldom claimed.

In France, membership of groups known as "Syndical Building Associations" is obligatory on all war-damage victims owning buildings within a certain perimeter. They are under the dual control of a committee elected by the landlords themselves and a representative of the State, and they have the legal status of public bodies.

These various groups have developed on a large scale, and today they probably carry out the majority of reconstruction operations, at any rate in the towns. The reason for their existence is similar to that which has given rise to the group building organizations for occupier-ownership of houses<sup>(1)</sup>.

---

(1) See Chapter V, second part.

## Chapter XI

### SPECIAL MEASURES BENEFITING CERTAIN POPULATION GROUPS

The assistance given within the framework of the three main categories examined in the preceding chapters - purchase of dwellings by their occupiers, working class housing and reconstruction of damaged houses - makes up the major part or in some cases practically the whole of the expenditure incurred by the public authorities in carrying out their housing policy; apart from these categories, however, special measures have been adopted in various countries on behalf of certain other population groups.<sup>(1)</sup> Of these, the most important relate to rural housing and assistance to large families, although there is a wide variety of other measures to be found here and there.

#### Rural housing

The special features of rural life have made it necessary in nearly every country to adapt the usual housing measures to prevailing conditions. The assistance provided has to cover not only housing proper but farming operations generally (farm buildings), and to include not only the construction of new buildings but alterations and major repairs, as well as the purchase of existing farms together with their out-buildings. In many countries, financial assistance is provided by agricultural credit banks, some of them State-aided, which help the farmers to meet the expense of all these operations. However, the grant of housing loans represents only a small fraction of the total transactions carried out by these banks, and it is therefore impossible to study their activities without overstepping the bounds of the present report.

In addition, a number of States have adopted special measures in the case of rural housing, usually with the object of assisting persons with limited capital to become the owners of rural property and enable them to make any improvements or to carry out any major repairs which that property may require.

---

(1) Quite apart from general measures applicable to housing as a whole.

In some instances, the measures apply to agricultural workers only, while in others they cover all persons engaged in farming (agricultural workers, farmers, landowners) or even rural inhabitants in general whatever their mode of livelihood. The methods employed may take the form of assistance with development work on the same lines as assistance to low-cost housing generally or may follow a different technique. In addition, special financing bodies have been established in some countries (Belgium, Italy, Norway).

In Belgium, the National Small Rural House Property Company, set upon the same pattern as the National Low-Cost Housing Society, acquires real estate with a view to creating small holdings and advancing funds to approved local societies. The latter are co-operative societies (in which the public authorities participate) whose members are rural inhabitants to whom loans are advanced for the purchase of small holdings or the construction and repair of buildings. The loans are first mortgage loans repayable in 20 or 30 years at 2½% interest. The financing system is on similar lines to that applied in the case of low-cost housing societies but is far narrower in scope.

In Norway, a smallholders' bank possessing the status of a public body has been in existence since 1903, for the purpose of advancing loans to persons in the low-income brackets, primarily in rural areas, to assist them to obtain a house of their own or to carry out development and repair work on their holdings. The bank was re-organized in 1927, and the loans are now advanced on financial conditions similar to those laid down for loans by the Husbank, a dividing line being drawn between the fields of operation of the two banks.

In Italy, a Fund for Special Public Utility Work in Southern Italy was set up under the Law of 10 August 1950. The Fund, the object of which is to implement agrarian reforms, provides for a large-scale rural housing programme, although the financing conditions do not so far appear to have been clearly defined.

The remaining countries do not seem to have established any special Funds for rural housing. The main features of the various special systems adopted are as follows:

In Denmark, agricultural workers may be granted loans up to 100% for purchasing or building their own homes; three-fifths of the loan is interest-free, the remaining two-fifths bearing interest at 4%. The redemption rate is 1% per annum.

In Sweden, loans may be advanced up to a total of 80% of the cost for new building, and 70% for improvements. The loans are interest-free over a 10-year period and are repayable over 20 years.

In France, a maximum subsidy of 25% of the cost (up to a fixed ceiling) may be granted for work on rural houses. Contrary to the policy followed by other countries, the subsidy is payable irrespective of the owner's financial standing.

In Switzerland, the Federal Government grants assistance under legislation governing the housing of agricultural workers.

No special measures seem to be applied in the case of rural housing in the USSR. The only difference between town and country is that the conditions governing the grant of State assistance (cost of construction etc.) are not quite the same.

Finally, it should be noted that while, in the Netherlands, legal provisions exist under which loans may be made to agricultural workers, they are no longer applied in practice, the ceiling fixed for the cost of construction having now become too low as a result of the rise in prices.

#### Assistance to large families

For a long time past large working-class families have found it difficult to pay rent on a scale commensurate with their needs. In most countries, housing policy has been specially directed towards helping to solve this problem, which the increase in the birth-rate is bound to render more acute. In many countries, one of the specific objects of house-building by non-profit-making bodies and the grant of loans for the purchase of houses by their occupiers is to facilitate the housing of large families. However, the adoption by various States of measures to scale down charges according to the number of children in the family appears to be only a recent phenomenon. These measures not only make it possible

to adapt existing dwellings more fully to public requirements, but also encourage the construction of a sufficient number of fair size dwellings of a type which, without that assistance, might be in short supply owing to the rise in building costs.

Legislation on the subject in the various countries seems to present certain common features: to enjoy the facilities granted, the dwelling occupied by the family must reach certain minimum standards as regards space and fitness for habitation, while steps are taken to ensure that the assistance given is actually used for housing charges and not for any other forms of family expenditure. Ceilings are fixed for the total amount of assistance.

Countries which appear to have a special system of State assistance for large families are Belgium, Denmark, France, Norway and Sweden; while measures are also applied in Switzerland in certain cantons.

In the three Scandinavian countries, the general principles governing the payment of allowances are fairly similar. Assistance is confined to families occupying dwellings built since the war, the amount sometimes varying according to the date of construction. It is given in the form of a reduction in the annual instalments on State loans in the case of families owning the dwelling in which they live, and in the form of a rent reduction where the dwelling is rented, with an allowance to the landlord usually in the form of a reduction in the annual instalments on the State loan. This type of assistance is restricted to families below a certain income level (that level varying according to the country) and with at least two children (one child in Denmark in the case of families occupying their own dwelling). However, different methods are used in the various countries for calculating the amount of the assistance. In practice, the allowance is equivalent to a reduction of 30-70% (for 2-7 children) in Denmark and Sweden, and well below that figure in Norway.

In Belgium, the privileges granted to large families are of three kinds: a rent reduction of 20 -50% in the case of houses belonging to Low-Cost Housing Society; a State subsidy to the Society to cover any deficit in its operating account resulting from the reductions granted by it; and a 20% increase per child

in the bonus given by the State to persons buying or building a house for their own occupation.<sup>(1)</sup> Lastly, State assistance may take the form of guarantees and reduction of interest accorded to the Housing Fund of the Large Families' League, a co-operative society formed by the Large Families' League for the purpose of making loans to assist families in low-income groups with at least 3 dependent children to become the owners of their own dwellings. The rate of interest tapers with the number of dependent children and varies from 3.25% to 0.50%.

In France, housing allowances are granted within the framework of the general family allowance system to families with at least two dependent children. They are paid direct to the tenant family itself, but a simple procedure has been devised to enable the payments to be suspended or made to the landlord if the rent is not paid. The amount of the payments is calculated on the basis of a fairly elaborate scale which takes account of the rental, the family income and the number of dependent children. In actual practice, allowances are refused in cases where the family fails to spend a certain proportion of its income on living accommodation. In the case of families owning their own dwelling, the allowance is only granted if they still have annual instalments outstanding on the loan, in which case the scale takes the amount of the instalments into account. There is a considerable difference between the rate of the allowance for old and for newly built dwellings.

#### Miscellaneous measures

The principal measures under this head are as follows:

France and the Netherlands appear to be the only two countries which make grants for the improvement or conversion of existing dwellings:

- In the Netherlands, bonuses are granted for improving and subdividing dwellings. The landlord bears the cost of the work up to what would have been the total figure before the war, the balance being covered by the bonus, 75% of which is payable by the State and 25% by the commune. This policy of subdividing dwellings may be likened to that pursued in the United Kingdom during the first years after the war, when the State requisitioned unoccupied houses and divided them up at its own expense.

(1) The bonus is subject to certain conditions designed to limit its application to low-cost dwellings (see Chapter IX).

- In France, a Housing Improvement Fund has been set up which obtains its capital from a 5% levy on the rents of old houses and makes grants for alterations, major repairs and deferred maintenance work on old houses let for rent. The average amount granted is between 20 and 30% of the cost. The Fund is also empowered to reduce the interest and provide guarantees of settlement in respect of supplementary loans contracted for such work.

In addition, a number of countries (including the Scandinavian countries and the Netherlands), have adopted various measures in favour of old and retired persons and pensioners, the principle being either to encourage the construction of houses for their occupation or to grant them allowances in the form of rent reductions.

In Germany, refugees and persons suffering from war injuries may be granted loans to enable them to make personal investments in building undertakings.

In Russia, ex-servicemen appear - at least during the first years after the war - to have enjoyed special facilities.

Finally, mention must be made of the policy adopted in the Netherlands of building "temporary dwellings" for families from slum-cleared areas with a view to re-educating them before they are given standard apartments.

This list of miscellaneous measures adopted in the various countries is, of course, by no means complete. Its sole object is to bring out the multiplicity of the individual problems that have arisen.



Part III

ANALYSIS OF THE METHODS ADOPTED IN THE VARIOUS COUNTRIES

---

## CHAPTER XII

### GERMANY (WEST)

The need for dwellings in the German Federal Republic and the difficulties experienced in financing new construction are a consequence of the Second World War and its repercussions both on the number of houses (a decrease in dwellings coinciding with an increase in requirements), and on the money market.

It is estimated that nearly a quarter of the 10,000,000 dwellings which before the war existed in what is now the territory of the German Federal Republic was completely destroyed or rendered uninhabitable by air bombardment or other military operations. About another quarter was more or less extensively damaged. Altogether, nearly half the total number of houses suffered war damage, the large towns being hardest hit.

At the same time, the population rose from 39.4 million in July 1939 to 47.7 million at the beginning of 1950, an increase of more than 20%. This increase is entirely due to the influx of refugees and other immigrants. In the spring of 1950, 9 million persons crossed the frontier of the German Federal Republic - a migration unprecedented in size. The biggest movement was into Schleswig-Holstein, which has 40 immigrants for every 100 inhabitants. In Lower Saxony the figure is 30, and in Bavaria 25. Most of the refugees have so far had to find accommodation in small towns and in the country, that is, in places in which a large part of the population of the big towns had previously had to seek refuge. The population in towns of 100,000 and over now forms 28% of that of the country as a whole, as against 37% before the war, whereas in the communes with fewer than 10,000 inhabitants the figure is 54% as against the pre-war 44%. It is estimated that almost 2.25 million dwellings are needed for the refugees. Having regard to the location of these newcomers and probable place of employment the new houses should be erected chiefly in the big towns and industrial centres.

The number of new dwellings required as a result of the war amounts in all to about  $4\frac{1}{2}$  million. In addition, at least a million houses will be needed in

the German Federal Republic during the next 10 to 15 years for new families. For this period, the number of new houses to be built should therefore be close to 6 million.

By way of comparison, it may be noted that during the period from 1923 to 1933 housing needs created by the growth of the population were estimated at almost 3 million dwellings. From 1924 to 1933 about 2½ million dwellings were built in the Reich, which corresponds to an investment of nearly 18,000 million Reichsmarks. The housing shortage resulting from the First World War became steadily more acute up to the 1939 war.

During the period between the two wars, 1929 was the best year for house building in the Reich, 339,000 dwellings being constructed; of this number nearly 200,000 were erected in what is now the Federal Republic. In 1950, 350,000 dwellings were provided for the population in this area<sup>(1)</sup>, representing an investment of nearly 3.4 million DM.

The war not only led to a greater need for housing, but also to a marked scarcity of capital and, hence, to a high rate of interest. This is at present the most serious obstacle to building the houses that are urgently required.

#### The First House-Building Act

In March 1950 the "First House-Building Act" was unanimously passed both by the Parliament of the German Federal Republic and by the Bundesrat. It came into force on 27 April of the same year. The Act establishes the house-building programme for the next few years, and the dimensions and nature of the dwellings to be erected. In addition, it lays down the general principles of financial assistance and rent control. Lastly, it makes provision for certain forms of tax relief and makes a number of stipulations designed to give greater flexibility to the rent regulations and to the rules applicable to the allocation of houses, together with other measures to encourage the building of dwellings.

---

(1) New and repaired war-damaged dwellings.

It is the duty of the Federal Republic, the Länder and the communes to work together to encourage house-building and to regard the task as one of special importance. They must try to produce, if possible, in the next six years 1.8 million dwellings, the size, equipment and rents being such as to suit the great mass of the population. The needs of persons who have been driven from their homes or whose dwellings have been destroyed come first. Public funds are, subject to special conditions, placed at the disposal of the parties concerned in the form of subsidies towards the so-called "social housing schemes". In addition, the Act encourages other forms of house-building by the simple expedient of granting certain tax advantages. Lastly, it deals with the building of houses without any assistance from the public authorities. Houses in this last category are not subject to any rationing system or to regulations with respect to size or rent. But as they are relatively dear owing to high building costs, they only form a small fraction of the total production. In the case of buildings which qualify for tax relief (both in respect of property tax on the buildings themselves and income-tax paid by builder and tenant) it is essential that rentals should cover costs. These rents are, however, controlled and may not exceed 18 DM per square metre of the apartment per year, though exceptions to this rule are allowed. The floor-space of the house may not as a general rule exceed 80 square metres (in some cases, however, it may be as much as 120 square metres). These dwellings are not subject to rationing, and the builders can dispose of them freely. All dwellings finished after 31 December 1949 qualify for tax relief for a period of ten years, on condition that the floor-space of the dwelling units does not exceed the figures given. The land tax payable on the property is in these cases limited to the tax payable before the house was built or the damaged dwelling repaired. In the case of houses in the third category, i.e. those which come under the "social housing" scheme, State assistance is available in addition; but in their case, rent control is more severe and accommodation is allocated in accordance with priorities. Out of 350,000 dwellings completed in 1950<sup>(1)</sup>, 250,000 are included in this category.

---

(1) Total number of dwellings provided. (New and repaired war-damaged dwellings)

The following questions will be studied in turn:

- financing while building is in progress;
- credit institutions for financing building;
- methods used by builders for obtaining adjustment capital;
- assistance from public authorities.

### Credits during building

Letters of credit for building (Zwischenkredit) have for a long time played an important part in Germany. The interest on letters of credit and the other costs attached to these securities are included in building costs up to the time when the buildings can be occupied. If the term of the letters of credit is longer the resulting costs should be covered by income from the dwellings. When first mortgages and State loans are granted successively during building operations as the work proceeds, letters of credit are unnecessary. In these cases, the interest on these successive loans is also embodied in the building costs, and the same applies when the builder uses his own funds for financing the building.

In practice, the majority of credit institutions furnish letters of credit, which are valid pending property credits, in the form of short-term loans for from 6 to 9 months. They are generally obtained without difficulty. As a guarantee for these letters of credit, the builder must assign to the Bank any first mortgages or State loans he may have obtained. If these State loans should not be in the form of mortgages, a temporary mortgage guarantee would be demanded, this guarantee being cancelled when definitive mortgage loans are entered in the mortgage register.

In addition to the ordinary credit institutions which furnish letters of credit for building, there are certain banks in Germany which specialize in this form of granting credits, notably the Deutsche Bau-und Bodenbank and various Bauvereinsbanken.

Since the monetary reform (1948), interest on and other costs of letters of credit for building have been particularly high. They exceed the rate of interest on first mortgages and at present stand at 8 to 9%.

Sometimes, though not very often, a building scheme is approved and carried out before the first mortgage is granted, a responsible credit institution being prepared to furnish a letter of credit for the work until the first mortgage has been obtained. This is, as already mentioned, exceptional.

Credit institutions for financing building (Organisierte Realkreditgeber)

The principal institutions providing funds for the financing of dwellings in Germany are:

- (a) Savings Banks (Sparkassen)
- (b) Public Credit Institutions (Öffentlich-rechtliche Kreditinstitute)
- (c) Private Mortgage Banks (private Hypothekenbanken)
- (d) Insurance Companies (Öffentliche und private Versicherungsanstalten)
- (e) Social Insurance Institutions (Sozialversicherungsanstalten)
- (f) Land Savings Banks (Bausparkassen)

The relative importance of these various organizations in providing funds is constantly changing. Before the war the Savings Banks and the Public Credit Institutions played the principal part, and they were followed by the insurance companies. Since after the currency reform, insurance premiums became the preferred vehicle of capital formation and there is a disinclination to acquire securities issued by private and public credit institutions, the situation has now changed. Deposits in savings banks are not yet large enough to enable these banks to regain their old leading position. Since the currency reform, their place has been taken by the private and official insurance companies, but it is to be expected that they will gradually recover their great importance as lenders of funds for property undertakings. The Land Savings Banks confine their activities almost entirely to financing the building of private houses for workers.

The comparative importance of the various credit institutions is shown by the following, approximate breakdown of mortgage loans granted in 1950 for house-building:

Savings Banks .....	640 million DM.
Private Mortgage Banks .....	186 " "
Public Credit Institutions , , , , , .....	140 " "
Private Land Savings Banks .....	185 " "
Public Land Savings Banks .....	223 " "
Life Insurance Companies .....	190 " "

Interest and amortization in 1950 were:

	<u>Interest</u> (%)	<u>Amortization</u> (%)
Savings Banks	5½ - 6½	1
Public Credit Institutions	5½ - 6	1
Private Mortgage Banks	5½ - 6	1
Life Insurance Companies	6 - 7	1%, or, preferably, a tied loan for from 5 to 10 years.
Social Insurance Institutions	5	1 - 1½

Land savings-banks grant their loans on special conditions; annual payments (interest and amortization) vary from 7 to 10%.

Mortgage loans cannot be redeemed during the period of amortization. There is, however, a special right of redemption for the settlement of the interest. The savings bank loans are redeemable at six months notice. In general, the interest rate is fixed, at the time when the loan is made.

At present there are no issues of Government stock in Germany. The rate of interest on mortgage bank bonds is fixed at 5%, as compared with 6½% on industrial securities guaranteed by the State.

In principle, all credit institutions may grant loans up to 60% of the estimated value of property, as determined by themselves. In view of the high

cost of building (including the cost of the land) it is, however, unlikely that the mortgage will exceed 35-40% of the cost of the building.

Every loan must be secured by a first mortgage on the property (Die Hypothek muss ersten Rang haben).

In 1950 special measures were taken to increase the liquidity of the building credit institutions. Thus the central banking system of the Federal Republic (Bank deutscher Länder und Landeszentralbanken) granted to the credit institutions a "re-financing" (Refinanzierung) of nearly 500 million DM, which allowed them in their turn to grant mortgage loans even before the necessary funds were placed at their disposal out of current savings. At the end of 1950, the central banking system even declared itself prepared to have recourse to open market operations to support the prices of securities, although in practice this method was not applied.

Building credit institutions are only to a very limited extent protected against competition from capital issues for industrial purposes. In general, the issue of shares and of bonds is subject to a licence from a departmental committee.

#### Adjustment financing (Spitzen-oder Restfinanzierung)

For a builder to find the capital he needs over and above what he can borrow on the money market or obtain in the shape of an official loan is a difficult matter in the German Federal Republic, even if this adjustment capital is limited, as is generally the case, to 10% of production costs. In certain Länder, the amount of the official loans is so limited that the builder must, by drawing on his own resources, find 20 to 30% of the production cost, and this makes the task even more difficult.

The following are possible solutions of his problem:

- a) He may put into the building his own capital, including the value of the site if it is entirely his own property (possession of the site plays an important part in the reconstruction of buildings destroyed during the war);



- b) He may borrow from prospective tenants. Anyone in the German Federal Republic who invests 20% of his income in house building is entitled to have a dwelling allotted to him. This investment may take the form of a loan or a contribution. It can, of course, more easily be afforded by persons whose earnings are higher than those usually paid to workmen.
- c) If the building project is a co-operative undertaking, funds may be obtained from members' subscriptions, which generally amount to between 300 and 600 DM, but to obtain an apartment in a new building a member generally has to contribute about 900 to 1,000 DM.
- d) Industrial undertakings often grant loans of 1,000 to 2,000 DM per apartment, in which case the amount of such loans is deductible for purposes of taxation.
- e) Refugees and disabled ex-servicemen may obtain loans up to 1,000 DM (in the case of small private houses up to 1,500 DM) for investment in housing projects.
- f) Builders of small private houses and cottages may contribute their own labour.

As we have seen above, certain forms of income-tax relief are allowed in various ways to encourage house-building. Thus, income-tax does not have to be paid on investments in co-operative housing projects. Similarly, prospective tenants may secure exemption from income-tax on sums contributed by them towards building loans, provided that the borrower is an approved building undertaking recognized as operating in the public interest.

It calls for considerable astuteness and initiative on the part of the builder to take full advantage of all the available possibilities of obtaining the extra capital he requires.

#### Contribution to financing of housing projects by the public authorities

The general regulations governing the grant of public loans for housing construction are laid down in the first Housing Act. Supplementary regulations

are being established by the Federal Republic's eleven Länder, and their originally very divergent provisions are to be brought into line with the principles of the Housing Act in 1951. During 1950 the Act was further supplemented, among other things, by two decrees on the fixing of rental scales in new dwellings (rent decree) and on the assessment of income from property and of floor space of dwelling premises respectively (assessment decree).

The Housing Act does not contain any regulations regarding ways and means of procuring the requisite funds for loans by the public authorities; the problem has to be solved every year by the legislative organs of the Federal Republic and of the Länder. By 1 October of every year the governments of the Länder are required to establish a programme of social, i.e. publicly-financed housing construction projects for the ensuing calendar year. These programmes are then co-ordinated by the Federal Minister of Housing and brought within the framework of the six-year plan for the territory of the Federal Republic, as a whole, established under the Housing Act. As the proposed expenditure - 1,800,000,000 DM - on "social" dwellings represents the minimum production programme under that plan, an average of at least 300,000 dwelling units per annum must be built if the plan is to be realized, although, of course, the annual building programmes may be set a little above or below that average. It is estimated that social housing construction projects comprising some 315,000 units will be completed in 1951, to which must be added about 50,000 units qualifying for relief of various kinds.

In order to finance housing on so extensive a scale in the face of prevailing building costs and conditions on the money-market, public funds must be made available by either the Federal Republic or the various Länder and communes. As a general rule these funds are provided by the governments of the Länder, or by bodies appointed by them for that purpose, in the form of mortgage loans. In some Länder the communes are themselves authorized to grant loans from funds made available to them for the purpose, while in others the communes merely receive the applications and forward them with their recommendations.

The reduction in the land tax (applicable to all dwellings) which came into effect on 1 January 1950, provides another way in which the communes can assist.

In some cases the latter also contribute by providing the necessary sites, generally on 99 years lease. Furthermore, as the local housing authority, they also have the say in deciding how and by whom the buildings erected shall be used, and it is therefore in their interest to promote the highest possible production.

The financing system introduced on the basis of the Housing Act must fulfil two conditions as far as "social" building construction is concerned: it must ensure that the capital required is forthcoming, with due regard to such funds as the builders and the credit institutions have been in a position to supply, and it must ensure that the rental regulations laid down under the law are fulfilled.

As regards the size of dwelling units in single-family or multiple-family houses which have been built, re-built or enlarged with the aid of public funds, the general condition applies that the floor space of dwellings may not be less than 32 sq.m. and not more than 65 sq.m. Again, the Housing Act prescribes a maximum average rental for a dwelling-house or housing project of 12, or in exceptional cases 13, DM per annum per sq.m. of floor space. This standard rent is subject to a differential, depending upon the size of the locality and the equipment and situation of the dwellings, and it varies between 7.20 and 12 or 13 DM. The actual rents charged are determined by the owner, but the local price-control authorities are responsible for seeing that the average rental established in connection with the State loan is not exceeded. The rents payable for dwellings already in existence are assessed on the basis of the 1936 position.

Annual housing costs are composed of interest on the capital invested (Kapitalkosten) which does not include amortization charges, and operating costs (Bewirtschaftungskosten) which are sub-divided into:

- 1) depreciation (= 1% of the building costs),
- 2) administrative expenses,
- 3) current expenses,
- 4) maintenance costs, and
- 5) estimated risk of loss of rent.

The rates payable for interest on and amortization of public loans which rank after first mortgages, are not fixed but vary from case to case, the balance of rental revenue remaining after other expenses have been met being taken into account. These expenses include interest on the builder's own investment at the

rate of 4%. If this investment exceeds 15% of the production cost, the same rate of interest may be levied on the difference as is charged on the first mortgage. Payment of interest on the public loans primarily depends on how much capital was made available by the builder and how much in the form of a first mortgage, and on the rate of interest on that mortgage loan.

The first mortgage loans are generally amortization loans which it is estimated will be fully paid up after about 40 years (fixed annual payment - interest on mortgage loan plus 1%). During that time the rate for amortization of the public loans is restricted to  $\frac{1}{2}\%$ . The interest which, under the regulations of the Housing Act, may be reduced to zero, varies, according to the individual case, between 0 and 4%. It is estimated that in 1950 it amounted on an average to practically 1%. After the first mortgage loan has been repaid, that part of the rental revenue which is thus released, is used for a higher amortization rate on the public loan, and, possibly, for the payment of a certain amount of interest on it. In view of this, the public loan is reckoned as due to be fully paid up within a period of 60-65 years in all.

Official loans up to as much as 90% of the cost of production are generally obtainable, in which case the builder invests the other 10%. In some of the Länder, however, official loans are granted up to only 70 - 80% of the building costs, the builder's investment being correspondingly more. In view of the amount which can be raised by means of first mortgage loans, the loans from official sources on an average cover about 60% of the cost. But exceptions to that rule are made in certain Länder.

Owing to the different types of official loans, interest payable on them and amortization arrangements, it is not possible to establish, even approximately, any fixed relation between annual capital charges and permissible annual rentals.

The importance of official loans in the financing of building enterprises may be illustrated by a typical example. In 1950 the average estimated cost of production of a dwelling was 10,000 DM, of which 9,000 DM was assumed to represent building costs and 1,000 DM the cost of the site. Assuming that the builder was required to put up only 1,000 DM, and a first mortgage loan of 3,500 DM was obtainable, the remainder, i.e. 5,500 DM, had to be furnished from

public funds. For a dwelling with 50 sq.m. of floor space and a rental of 12 DM per sq.m. per annum, the annual rent would amount to 600 DM. Rent again can be broken down into Bewirtschaftungskosten (including 1%, or 90 DM, on the building costs), and Kapitalkosten (6% interest on the first mortgage loan, i.e. 210 DM, 4% interest or 40 DM on the builder's investment, the remainder, namely 50 DM, representing interest on the official loan at a rate of nearly 1%). There are considerable departures from this scheme, however, as regards the ratio between the builder's investment, the official loan and the first mortgage loan.

As was stated at the beginning of this chapter, housing investments in 1950 reached a figure of about 3,400 million DM, corresponding to over one-third of all new investments in the German Federal Republic during that year. The relative proportion of public funds, real property finance corporations and private sources making up the 3,400 million DM was as follows:

	Millions of DM	%
Public funds	1600	47
Real property finance corporations	1400	41
Other private sources	400	12

During earlier periods, the relative proportion from these sources in Germany had been as follows:

	1903-11 %	1924-31 %	1932-39 %
Public funds	3	51	14
Real property finance corporations	54	37	46
Other private sources	43	12	40
	<hr/> 100	<hr/> 100	<hr/> 100

It will be evident from the above table that the contribution now being made from public funds towards the financing of housing construction in the Federal German Republic is comparable with the conditions which obtained during the years 1920 - 1930, i.e. the Hauszinssteuerperioden.

The amount of public funds made available for financing housing construction in 1950 totalled about 1,600 million DM, and of this 600 million DM were furnished by the Lander and the communes, and about 325 million by the Federal Republic. In addition, about 500 million DM were made available under the terms of special

legislation on the equalization of fortunes which was based on the varying extent to which the population had been affected by war-damage. Another 175 million DM were supplied from Marshall Aid funds.

As a matter of fact, during the financial year 1950, about 250 million DM were supplied from Marshall Aid funds, but it was not possible to make the whole amount available in 1950. The use of these European Recovery Programme (ERP) funds is moreover subject to certain special provisos. Security in an amount of 150 million DM<sup>(1)</sup> had to be given in the form of first mortgages (erststellige Hypotheken), the rate of interest being 5% and amortization 1%. The remaining 100 million DM must be spent in the same way as public funds, but exclusively on housing for refugees in Schleswig-Holstein, Lower Saxony and Bavaria.

Great difficulties are being encountered in carrying out the housing construction programme during 1951. Competition from other building activities, in particular the erection of barracks and other military buildings for further contingents of occupying forces, has increased, creating a shortage of specialized workers and of certain building materials. As in other countries, building costs in the German Federal Republic have risen substantially since the middle of 1950. Credit institutions cannot guarantee that funds will be made available for housing projects to the same extent as last year. The same applies to Marshall Aid funds. Assuming that present rental conditions remain unaltered - and it would appear that they cannot be changed at present in view of the income level of the greater mass of the population - still greater demands will have to be made on public funds if a reduction in "social" housing production is to be avoided. In view of the pressing urgency of the problem caused by the presence of millions of refugees, there is every indication that the greatest effort will be made to avoid any falling off in housing production. That situation will, however, necessarily mean still greater demands on public funds and, to a greater extent than before, contributions will have to be made in the form of subsidies.

---

(1) to be spent on dwellings for workers in industries receiving Marshall Aid.

Chapter XIII

## A U S T R I A

Austria's present condition and her particularly difficult economic circumstances, greatly complicate the solution of the housing problem. Apart from the very high building costs, there is a scarcity of capital, rates of interest are very expensive (7-10%), and the State's financial position is precarious. These facts explain why, despite the heavy demand, the production of dwellings has not apparently recovered to the pre-war level.

Types of building

As in most other countries, there is little building by the State itself. What building has taken place is almost exclusively in connexion with the provision of housing for Government employees (as, for instance, for customs officials).

On the other hand, building by local administrations, which attained considerable proportions between the two wars - the City of Vienna built nearly 70,000 dwellings between 1918-1938 - probably still accounts for the bulk of all new building. The City of Vienna is very much to the fore in this field, having with its own resources commenced the building of 10,000 dwellings since 1948, 5,000 of which have been completed. Other communes have also built housing, but on a smaller scale; nor was their building financed, as Vienna's was, solely out of their own resources: it was carried out almost entirely with the help of loans from public or private organizations. Besides, the communes, instead of building themselves, frequently did nothing more than assist the building efforts of "undertakings operating in the public interest" through the grant of land or subsidies.

"Housing undertakings operating in the public interest" are non-profit making private bodies governed by special legislation. They usually take the form of co-operative societies, but are, at times, established as limited liability or joint stock companies. They enjoy valuable tax relief privileges

and receive financial support from the "Federal Housing Fund" and the "Regional Housing Funds". Between the two wars they made a great contribution, but present conditions are not favourable to a resumption of their activity owing to the existing disparity between building costs and rentals. They are only able to resume operations if and as far as they are aided by communes or industrial undertakings.

Austrian industry has, for many years, been assisting in the provision of dwellings for its workers; a large number of industrial undertakings have provided dwellings for nearly half their wage-earning and salaried employees. Most of this accommodation has been made available as housing for employees, thus constituting part of their wages or salaries, and no charges are made for its use. Other tenants have to pay very small sums for the use of the accommodation and also for some of the current expenditure. The owners of this housing are either the industrial undertakings themselves or - particularly in recent times - "housing undertakings operating in the public interest" which received a large share of the necessary capital from the industrial undertakings concerned. The latter become the general leaseholders of the dwellings. In 1949 and 1950 the Bundes-Wohn-und-Siedlungsfonds granted these housing undertakings advances from ERP funds to enable them to erect dwellings for workers employed in industries and mines of national importance.

Lastly, building is being carried out by the owners of war-damaged property with State assistance, under the provisions of the general reconstruction legislation.

Special mention should be made of the Federal Housing Act of 8 July 1948 (No.149) which created a special form of co-ownership. Under this new legislation, the co-owners of a block of flats can divide up the flats in such a way that each co-owner acquires a personal right to one or more flats, indefeasible by third parties, and a right to an undivided share in the jointly owned parts of the building. That is also a familiar arrangement in other countries (France, Italy). The Act is too recent to allow of an assessment of its probable effect on the Austrian building economy.



### Real property credit institutions

In Austria the traditional sources of credits for housing are the Land Banks and the Savings Banks.

The Land Banks would normally grant long-term, first mortgage loans for 30 - 40 years, repayable by fixed annual instalments (interest plus amortization). Present rates of interest are about 6 or 7%. The amount of the loan is limited to 60% of the estimated value of the building, based on its market value and the income it provides. Owing to the low level of rentals, estimated values, as in most other countries, are nowadays very low in comparison with building costs. Loans cannot as a rule be repaid in advance of the redemption date. The Land Banks obtain their funds by the issue of bonds to the public.

The Savings Banks grant loans on similar conditions. But in their case the amount of the loans may not exceed 50% (instead of 60% in the case of the Land Banks) of the estimated value. Generally speaking, loans can be repaid in advance of the redemption date.

With a view to facilitating reconstruction, the post-war Housing Act established a loan system, called "Credits for repairs", whereby the lender took a lien which ranked before all registered mortgages and which was secured on the rent. Owing to the disparity between building costs and rentals, no use is at present being made of this form of credit.

Another point to be remembered is that the financial charges of all sorts incurred in connexion with loans are far from negligible. Their incidence varies but they may amount, inclusive of duties, to as much as 5 or 10% of the sum lent.

The reduction in the sums lent on first mortgages, as compared with building costs, and the decrease in the amounts contributed by the owners, led the Austrian State, not only to grant loans itself, but also to encourage the granting of second mortgage loans by means of a State guarantee.

Assistance from the public authorities

The first thing to be noted, in this connexion, is the important part played by local administrations, that of the City of Vienna in particular, both through the financing of building out of their own resources, and through the assistance afforded to other builders in the form of the provision of land, subsidies etc.

As regards State assistance, a clear distinction must be drawn between the activities of the "Fund for Housing Reconstruction" and of the "Federal and Regional Housing Funds". Some other measures will also be mentioned in passing.

Work on rebuilding and repairing houses damaged by military action was begun immediately after the end of hostilities. But up to 1948, the necessary funds were provided by the communes, the City of Vienna in particular, or individual owners, from their own resources. Since the establishment of a "Federal Fund for Housing Reconstruction" in the second half of 1948, however, reconstruction has been financed by this Fund. The Fund is purely a lending institution granting interest-free loans which are amortized at the low rate of 1% per annum. The loans are for the full amount held to be necessary for the reconstruction of a building.

In the case of other building, the public authorities act through the "Federal and Regional Housing Funds". The assistance obtainable from the Federal Fund is on a larger scale than that provided by the Regional Funds, but is only available to communes and housing undertakings operating in the public interest; private persons can only apply to the Regional Funds.

The Federal Housing Fund is authorized:

- to grant mortgage loans direct for an average period of 46 years and at 3% interest. They may amount to 90% of the cost of construction, but are in practice generally limited to 30 - 60% of this cost. Loans are only granted in respect of buildings the plans for which have been approved by the public authorities.

- to allow a rebate in interest for terms of not less than ten years, but not more than the duration of its own loans. The rebate is calculated in such a way as to scale the interest on the loans in question down to 3%. The loans may be on first or on second mortgage.

- to guarantee private loans on second mortgage.

The Regional Housing Funds is only a lending institution; the conditions governing its loans are the same as those applicable to loans by the Federal Fund.

Apart from these incentives, capital subsidies may be granted by the State for the purpose of completing houses begun during the German occupation and financed by the Reich. Such subsidies are limited to 20% of the expenditure necessary to complete the building.

Another system, now discontinued, but which gave good results between 1929 and 1933, was that established by the Act of 14 June 1929. Under this system loans were granted by the Land Banks up to 60% of the cost (land included). The money for these loans was found by issuing real property bonds, for the interest and amortization of which the State assumed responsibility. However, the borrowers were required to make annual payments to the Austrian Treasury, proportionate to the net income from the building. These annual payments normally amounted to 2% (including 1% for interest).

Chapter XIV

B E L G I U M

Belgian housing policy appears to have three distinguishing characteristics:

I. Both public and private policy aims at promoting individual ownership by the largest possible number of families, and in particular the ownership by families of the dwellings they occupy. This seems to be a result of the individualistic character of the people; it is one of the causes of the preponderance of individual over collective ownership and also of the large number of families which own their own dwellings; it has affected the actual nature of the buildings.

Until quite recently this policy of promoting individual ownership was pursued in connection with existing and new houses indiscriminately; but during the last year the public authorities appear to have been limiting their assistance to the acquisition of new buildings.

II. Belgian housing policy is very markedly liberal in character. Since the beginning of the century, building has mainly been carried out by private enterprise without any kind of assistance from the authorities. Action by the authorities, either in the form of the creation of special bodies to finance building, or in the form of loans, subsidies or reduction of interest rates, has been solely for the purpose:

- of improving working-class housing. Here, however, the assistance given by the authorities has for a long time been limited in scope .
- of assisting persons who have suffered from war damage.

III. As in many other countries, economic and political circumstances after the war, such as rent control, the decreased level of accumulated wealth and savings, the scarcity of certain materials etc. slowed down, if it did not altogether stop, renovation and expansion of the stock of houses by the unaided operation of private enterprise. Although new measures to encourage building have been adopted in the last year or two and building has received more extensive assistance, the bases of Belgian housing policy have remained unchanged.

DIFFERENT FORMS OF COLLECTIVE OWNERSHIP

The last census gives a fairly exact picture of the composition of all Belgian housing accommodation on 31 December 1947<sup>(1)</sup>.

Such accommodation in Belgium consists for the most part of houses constituting only a single dwelling: the average number of dwellings per building is 1.4; 75% of houses consist only of a single dwelling.

The proportion of dwellings owned by the families living in them is comparatively high - 39% of the total existing number.

Most of the dwellings let for rent are also privately owned; dwellings belonging to public or private bodies do not exceed 9% of the total, distributed as follows:

	<u>Number of dwellings</u>	<u>% of total existing number of dwellings</u>
Public or semi-public bodies <sup>(2)</sup>	60,000	2%
Non-profit-making private bodies	Negligible	Negligible
Firms <sup>(3)</sup>	50,000	1.75%
Privately owned dwellings let for profit	150,000	5.25%
Total	260,000	9 %

(1) There were about 2,050,000 buildings, with 2,865,000 dwellings (including hotels, temporary structures and buildings used temporarily as dwellings). Permanent dwelling-houses proper numbered 2,015,000.

(2) Including dwellings belonging to local and regional low-cost housing societies.

(3) To house staff.

Thus collective ownership (public or private) only accounts for a relatively small proportion of dwellings. But it appears to have played a comparatively larger part in building since the beginning of the century. A certain number of dwellings built as collective property have subsequently been sold to private persons and very great efforts have been made during the period to promote individual ownership.

Lastly, mention should be made of the fact that at the beginning of the century and between the two wars a number of buildings were put up by contractors for subsequent resale to individuals. The builder then financed the new dwellings on a medium-term basis. There is little of this type of building today on account of the financial difficulties of the enterprises and the fact that under the De Taeye law purchasers of houses built by individuals are not allowed grants.

#### I. Public or semi-public bodies

Buildings put up directly by the State, the Provinces or the Communes are very few in number. They have been financed either by the bodies concerned out of their own funds, or in part by means of a loan from the General Savings and Pension Fund (Caisse Générale d'Épargne et de Retraite).

Assistance to building by the public authorities has in the main been effected through the following semi-public bodies:

The National Low-Cost Housing Society (Société Nationale des Habitations et Logements à Bon Marché).

The National Small Rural House Property Company (Société Nationale de la Petite Propriété Terrienne).

#### A. National Low-Cost Housing Society

The basic law in this case is that of 11 October 1919. It provides for the creation of a National Society which approves local and regional societies and advances them funds. There are five kinds of approved societies (310 societies in all):

- a) local or regional low-cost housing societies, in the form of either limited liability companies or co-operative societies with capital provided solely by the State (about 1/5), the Province (1/5), the commune and the public assistance boards (266 societies);
- b) tenants' co-operative societies (20 societies), the capital of which is chiefly provided by the tenants themselves;
- c) companies of an industrial character (18) formed by firms to provide housing for their staff;
- d) companies of a special character (5) formed by welfare organisations under article 3 of the laws of 11 October 1919 and 25 July 1921.

The total capital (subscribed capital) of the Societies has developed as follows since the war:

	on 31.12.1944	on 31.12.1949
State	39,304,000	47,798,650
Provinces	39,122,000	47,064,925
Communes	131,370,000	151,354,600
Public assistance boards	22,919,000	27,307,575
Firms	57,208,000	182,449,925
Co-operatives, individuals, financial institutions	32,843,000	50,228,570
Total :	322,766,000	506,204,245

The societies have to be approved by the National Low-Cost Housing Society. This body is a company governed by the Civil Code but assumes the form of a limited liability company for all purposes not provided for in its articles. Half of its capital of 1 million is subscribed by the State and the Provinces. Its function is to promote the creation of approved local or regional societies, to finance them and to inspect their buildings. It has set up a research and technical investigation department under the law of 15/4/1949.

Its loans to the approved societies are advances not secured by mortgage registration. They are repayable in 66 yearly instalments of 2.35%, including interest, amortization (0.75 + 1.20%), and contribution of 0.40% towards the office expenses of the National Society.

The National Society obtains its funds:

- from loans provided by the State;
- by borrowing from the General Savings and Superannuation Fund (Caisse Générale d'Epargne et de Retraite);
- by borrowing on the financial market;
- or by issuing State secured loans, subscribed either by credit institutions such as the Savings Bank (Caisse d'Epargne), or by the State.

The relative amounts obtained from these three sources have varied at different periods. During the last few years they have been as follows (in millions):

	1947	1948	1949	1950	Total
Advances from the State	261 (1)	59 (2)	410	1234	1829
General Savings and Superannuation Fund ( <u>Caisse Générale d'Epargne et de Retraite</u> )	223	300	268	180	971
Financial market	60	195	45	60	360
Own resources (reinvestment, proceeds of house sales and short-term loans of capital temporarily available)	18	10	12	20	60
Total :	427	564	735	1494	3220

(1) War damage.

(2) Of which 34 millions war damage.



It should be mentioned that when the National Society is repaid by an approved company in advance, it does not pay back its own creditors in advance but reinvests.

The difference between the rate of interest paid by the approved societies and that paid by the National Society to its creditors, is covered by a State subsidy.

The following further information should be added:

In the case of houses let by the approved societies, rents are fixed at a minimum rate of 3.25% of the cost of the house. A maximum rent of fr. 850 per month has been fixed for dwellings built for miners. In the past the authorized rents did not always ensure the societies' financial stability. (The cost per annum of a dwelling built by the approved societies works out at 4% of the cost of construction, including about 1.25% for maintenance, repairs, insurance and office expenses). The deficit of certain societies has been met by special State loans. In 1950, 13 societies were still incurring a loss.

The approved societies are asked to sell their houses to persons qualifying for the State grant <sup>(1)</sup>.

The extent of the activities of the low-cost housing societies has varied at different periods since the system was established. The State's financial difficulties or the condition of the money market checked their development from 1931 on; after 1935 fresh State assistance enabled them to co-operate in the campaign against unemployment, but only to a small extent.

In 30 years, however, they have built a total of 72,523 dwellings, or about 12% of the new buildings. Between 1945 and 1949 they built about 10,617 dwellings.

Of the total number of dwellings erected by them they have re-sold 22,272, from the commencement of the scheme up to 31 December 1949.

On 31 December 1949 their house property consisted of 50,251 dwellings, or 2.5% of all existing dwellings.

---

(1) For assistance to purchasers (subsidy, reduced interest rates) see section entitled "The different forms of action by the public authorities".

B. National Small Rural House Property Company (Société Nationale de la Petite Propriété terrienne).

Though there was nothing in the law of 11 October 1919 establishing the National Low-Cost Housing Society to prevent the low-cost housing societies from building in the country, few houses were erected there at the beginning. A Royal Decree of 27 February 1935 therefore established the National Small Rural House Property Company similar to the low-cost housing society but controlling societies specializing in rural building.

The company comes under the provisions of the Civil Code but assumes the form of a limited liability company. Its function is to encourage a return to the land and to check the drift of population to the towns. Its duties include:

1. acquiring real estate with a view to creating small rural house properties;
2. promoting the creation of approved local societies;
3. advancing funds to these societies which it controls.

Thus it finances and controls 52 approved societies which have retained their status as "civil" companies but assumed the co-operative form; their capital was distributed as follows on 31 December 1949:

State .....	frs.	1,062,500
Provinces .....	"	1,042,500
Communes and Public Assistance Boards .....	"	1,909,000
Private individuals .....	"	1,982,750
Welfare organisations .....	"	<u>1,892,200</u>
Total :		" 7,888,950

The loans obtainable by the approved societies from the National Company are only limited by the amount of credit made available to the latter.

The greater part of the capital is advanced direct by the National Company to individuals. The loans are first mortgage loans repayable in 20 or 30 years. The annual payment varies according to the age of the borrower. Interest is 2.5%. This includes the contribution to the expenses of the National Company.

The Royal Decrees of 14 April and 12 December 1945, however, authorized loans of up to 100% of the value of the property to miners for houses in the country, with interest of from 2.5 to 0.5% according to the miner's years of service.

The National Company has obtained its funds from Treasury loans provided for under its articles and, since 1950 under the law of 15 April 1949, by the issue of loans subscribed partly by financial institutions and partly by the State.

The approved societies can let or sell on the same conditions as the low-cost housing societies.

The activities of this organization are not so extensive as those of the low-cost housing societies, chiefly because it deals only with small rural house property. Since its creation the National Company has been able to improve the position of 15,000 families. It has made nearly 14,000 loan or sale agreements. The total amount of capital tied up by the National Company in loans to individuals is frs. 1,559,492,560.

The loans, 12,720 in number, were distributed as follows on 31 December 1950:

8,296	for building a dwelling house
380	for building a farm
1,019	for providing a dwelling or farm with sanitation
1,725	for the purchase of a house
457	for the purchase of a farm
691	for the purchase of a house with sanitation
152	for the purchase of a farm with sanitation.

## II. Private Bodies

The limited liability company is still the commonest form of collective property. It accounts for no small part of the existing stock of houses.

In the case of new buildings, limited liability companies formed of persons desiring to lay out their money to advantage by building houses for letting, and even companies formed by families desiring to obtain accommodation for themselves by combining together to put up a building, appear today to play a part of negligible importance.

It has been mentioned elsewhere that co-operative societies, even those covered by the low-cost housing legislation, are small in size and few in number. There are, however, a number of firms which are the immediate owners of houses for the accommodation of their staff. Other firms have formed companies for building or managing workers' dwellings. These companies are for the most part companies approved by the National Low-Cost Dwellings Society.

The total contribution of firms to the financing of building may be put at frs.465 millions out of a total of 8,000 millions in 1948; and frs.200 millions out of 9,800 millions in 1949.

Assistance given by firms also takes the form of low rentals for employees housed by them, rent allowances for employees not housed by them and grants to employees for the purchase or building of houses.

### CREDIT FACILITIES AVAILABLE TO HOUSE-OWNERS

Credit is available to house-owners in many varied, and sometimes complex forms. Apart from some special cases, however, which do not affect the position as a whole, credit facilities fall into three categories.

- Private loans;
- Special legislation in regard to working class housing;
- Loans and advances for reconstruction (war damage).

After a rapid review of the above categories, an attempt will be made, in conclusion, to assess their relative importance.

Belgium has for many years been pursuing a policy of encouraging private ownership; that policy has met with success, as approximately 40% of the existing dwellings are owned by their occupiers.

It should be noted that a considerable proportion, if not the majority, of families that have contracted loans coming within the first two of the above categories, have become property owners by the purchase of existing houses.

By according even more favourable treatment to private builders as, for instance, by increasing substantially the permissible ratio of loans to total construction costs, the law of 29 May 1948 has brought about an appreciable change in that connection and directed loan policy more towards the financing of new building.

#### A. Private loans

I. As in many other countries, the provision of private capital takes the shape of:

- loans between private individuals, the amount of which is difficult to assess;
- loans by banks specializing in mortgage loans (not of great importance as they only amounted to 260 millions as at 30 April 1951);
- loans by insurance companies;
- loans by private savings banks;
- loans by certain semi-State institutions, General Savings and Superannuation Fund (Caisse Générale d'Epargne et de Retraite), Central Mortgage Office, (Office Central de Crédit Hypothécaire), etc. under the provisions of private law;

- recourse to the financial market, under the provisions of private law.

It should be noted, moreover, that in Belgium, as in many other countries, loans for housing have not represented in the past, and still do not represent, more than a small proportion of private mortgage loans.

II. Generally speaking, private mortgage loans for housing rarely amount to more than 40% of building costs; this naturally refers to first mortgage loans.

Second mortgage loans are rare and the rate of interest on them is prohibitive.

Private long-term loans are seldom for more than 20 years. The average is from 10 to 15 years and they are repayable by annual instalments or on expiration.

III. The rates of interest affecting housing are at present as follows:

	1938	1947	1948	1949	1950
Actual return on State loans (4% Consol. Fund)	4.13	4.44	4.75	4.61	4.42
Actual return on private (industrial) bonds	Average				
	1938				
	4.76	4.61	4.82	4.74	4.62
Rate of interest on housing loans by private institutions					
(1st mortgage)					
(2nd mortgage)	5.15	5.75	6.00	6.00	5.75
Rate of interest of public institutions (ordinary mortgage loans granted by the C.G.E.R.) (b)	-	5.50	5.50	5.50	5.50
Société Nationale H.L.B.M. (c)	3	1.15	1.15	1.15	1.15(a)
	Average				
S.N.P.P.T. (d)	2.50	2.50	2.50	2.50	2.50
Approved loan societies (C.G.E.R.)	3.50	3.75	3.75	3.75	3.75
Money advanced by the State for war damage reconstruction (loans without interest by the Ministry of Reconstruction)	-	-	-	-	-
Loans for renovation	-	2	2	2	2

(a) Including the National Society's contribution towards charges of 0.40%.

(b) C.G.E.R.: Caisse Générale d'Epargne et de Retraite (General Savings and Superannuation Fund).

(c) S.N.H.L.B.M.: Société Nationale des Habitations et Logements à Bon Marché (National Low-Cost Housing Society).

(d) S.N.P.P.T.: Société Nationale de la Petite Propriété Terrienne (National Small Rural House Property Company).

Rates of interest of mortgage loans are generally speaking higher than the general market rates, owing to the fact that charges of all sorts are higher in the case of such loans. Actually, ancillary expenditure in connection with mortgage loans amounts, on an average, to 10% of the principal. Again, registration fees are, at present, fixed at 0.30%.

Where a loan is made by a State-aided institution, however, rates are lower than those obtaining on the general market.

B. Special legislation in regard to working-class housing

The four main central organizations exclusively or partially concerned with the improvement of working class housing are:

The General Savings and Superannuation Fund (La Caisse Générale d'Epargne et de Retraite);

The Housing Fund of the Large Families League (Le Fonds du Logement de la Ligue des Familles Nombreuses);

The National Low-Cost Housing Society (La Société Nationale des Habitations et Logements à Bon Marché);

The National Small Rural House Property Company (La Société Nationale de la Petite Propriété Terrienne).

We have already indicated the way in which the last two organizations operate, and there is no need to add anything. We will now deal briefly with the first two organizations and devote a few remarks to the approved loan societies, as they are an important factor in the loan policy for working class housing.

I. The General Savings and Superannuation Fund is one of the fundamental factors in Belgian housing policy.

It controls the deposits of the savings and pension societies.

As regards housing, it assists in the financing of working class housing schemes in three separate ways:

1) Advances under the terms of the law of 1889 to the building and loan societies approved by it;

2) The grant of debenture loans to the National Low-Cost Housing Society, the National Small Rural House Property Company and the Housing Fund of the Large Families League;

3) Lastly, in certain circumstances, loans to towns and communes for building low-cost houses.

The capital invested by this institution in housing is made up as follows (in millions of francs):

	Balance of loans	
	as at 31.12.48	as at 31.12.49
To approved loan societies	2,405.4	4,696.2
To communes	30.5	30.3
To the National Low-Cost Housing Society		
(Loans		
(Subscriptions	1,206.1	1,488.1
(to bonds		
To the National Small Rural House Property Company	20.0	20.0
To the Housing Fund of the Large Families League	45.0	45.0



The balance of loans outstanding, as at 31 December 1949, amounted to 6,288.4 million francs.

Loans for housing of all categories amounted to 30% of the Fund's investments in 1948, and to 57.4% in 1949.

In assessing the assistance afforded by this institution, it must not be forgotten that the loans it extends are not re-payable before the date of redemption. Hence, the loan societies have been able to re-invest a further 1,800 million francs derived from the re-payment of their own loans. We have already pointed out that the National Low Cost Housing Society and the National Small Rural House Property Company have similarly been able to re-invest 600 million and 17 million respectively, as the result of an excess of re-payments received not set-off against re-payments to the State or the General Savings and Pension Fund.

The loan societies, established under the provisions of the Law of 9 August 1889, are limited liability companies or co-operatives, the capital of which derives from the subscriptions of private individuals and communes.

Their function is to make loans to individuals wishing to purchase or build a dwelling for themselves, or to improve their existing house. The cost of a house must not exceed a limit of from 220,000 to 392,000 francs for building, in the case of new construction, and from 138,000 to 175,000 francs, in case of purchase, according to locality and the number of children in the family. Loans may amount to 70% of the value of the house, including the land, or 80%, where the borrower is the head of a large family. Where the builder is in receipt of a State subsidy the loan may amount to 90% of the total value of the property, provided that it does not amount to more than the total building costs. On the other hand, a buyer in receipt of a State subsidy does not benefit by the higher loan to cost ratio. Loans are secured by a first mortgage and a life insurance policy taken out by the borrower. The current rate of interest is 3 $\frac{3}{4}$ %. Loans are re-payable by monthly instalments. The amortization period varies from 10 to 30 years according to the age and the means of the borrower.

As already indicated, these societies derive their loan funds from the General Savings and Superannuation Fund, which grants them money at from 0.25 to 0.5% above the rate of interest it pays on its own deposits. (3% up to 50,000 francs, 1½% from 50 to 100,000 francs and 1½% above 100,000 francs), or from 3.25 to 3.50% under existing conditions. There is therefore no question, in this instance of State subsidies for the reduction of interest rates as in the case of loans to the National Low Cost Housing Society. The loans are not subject to amortization.

There are, at the present time, 213 loan societies and their activities have been extensive, seeing that their loans (including the single premium for life insurance), amounted to more than 11,000 million francs up to 31 December 1950.

The scope of these societies' activities is increasing very appreciably. The total of loans granted has increased from 682 million francs in 1947 to 2,868 million francs in 1950.

This expansion is admittedly due to the success achieved by the Law of 29 May 1948, which "includes special provisions for encouraging the building of low-cost houses by private enterprise" (the De Taeye Law) and the Law of 15 April 1949, establishing the Housing Fund (the Brunfaut Law).

The considerable expansion in the operations of the approved societies has led the General Savings and Superannuation Fund to increase the amount at the disposal of a limited liability credit Company erecting working-class dwellings from 150 to 250 million francs.

Loans extended in the financial year 1949 amounted to 249% of the 1948 figure and 457% of the 1947 figure.

By the end of 1949 the companies' outstanding loans numbered 83,359 to a total value of 4,798 million francs, as against 67,336 loans and 2,527.1 million francs, as at 31 December 1948.

Included amongst the above are the loans to miners at specially reduced rates of interest, introduced in 1945, the main features of which are as follows:

1) The contractual rate of interest remains at 3.75%, but the State takes for its account and pays to the company 1.25 to 3.75% of the interest nominally payable by the miner, according to the number of years of his service in the mines.

2) the amount of the loan may be as much as 100% of the value of the property, including the single life insurance premium.

3) remission of interest ceases as soon as the borrower leaves the mines (except where pensioned-off or in cases of recognized disability).

The number of loans of this character amounted to 7,174, as at 31 December 1950, and represented an outlay of 720 million francs of which 340 million were in respect of building operations.

## II. Housing Fund of the Large Families League

This is a co-operative society, formed by the Large Families League for the purpose of extending loans at reduced rates to its members, to help them in building, purchasing, or improving a dwelling house.

The Law of 15 April 1949 - Brunfaut Law - empowers the State to guarantee loans contracted by the Fund and to assume responsibility for losses on interest incurred in that connection.

In return the Fund is obliged, by the Royal Decree of 18 May 1949 to adapt its loan policy to the family circumstances of the borrower. More will be said about this later.

As a contribution towards the cost of that policy the State takes for its account the interest on loans contracted by the Fund (less 0.75% in some cases).

Generally speaking the Housing Fund operations are on the same lines as those of the loan societies of the General Savings and Superannuation Fund; the decision as to what does and does not constitute a low-cost house, for instance,

is governed by the same standards and is subject to the same increases, based on the number of children in the family.

The essential difference, as regards the formula applied by the Housing Fund, lies in three provisions of a specifically family character:

- 1) The family must come within the "low-income" category and have an income below a certain maximum figure which, however, goes up by 20% for each dependent child;
- 2) the rate of interest on the loan - and that is the keystone of the system - is fixed in accordance with a descending scale, based on the extent of the family's responsibilities. That rate varies between 3.25% and 0.5%.

Size of family	Rate of interest
4 children including 3 dependent	3.25%
4 dependent children	2.50%
5 do.	2.00%
6 do.	1.50%
7 do.	1.00%
8 do.	0.50%

- 3) The amount of the loan may be as much as 90% to 95% of the value of the building, according to whether it is a case of purchase or of building.

The Fund only makes loans on first mortgage where the borrower is the head of a family with at least four children. Where, however, he is the head of a family with four children in the home but with only three dependent on him, the loan can only be a second mortgage loan.

The duration of the loan (with a maximum of 20 years) is determined by the family resources and the age of the borrower. Exceptions can, however, be made.

In regard to security, the borrower and his wife are jointly liable and must take out a mortgage, in favour of the fund, on the building in respect of which the loan is made. The borrower must, as a general rule, take out a life insurance policy with the General Savings and Pension Fund, guaranteeing the repayment of the loan.

1950 was the first full year in which the Housing Fund operated its new mortgage system.

By the end of 1950 the General Savings and Superannuation Fund had granted it three successive loans of 100 millions francs guaranteed by the State. Of those 300 millions, 275 had been issued on loans by 31 December 1950.

A fourth loan of 100 million francs has been authorized by Royal Decree of 16 February 1951 and granted by the General Fund. Negotiations for a fifth loan are in progress.

The extent of the Fund's operations is shown by the following figures: in 1950, the Fund made 1,690 loans for an amount of 279 millions. As compared with the previous year this represents an increase of 215% in the number of operations, 480% as regards implementation and 84% in regard to the average amount of the individual loans.

C. Loans and advances to war damage victims

The making good of war damage to private property is regulated by the Law of 1 October 1947, which fixes the amount that may be allotted to war damage victims in the form of compensation and restoration loans. Prior to that law, certain legal provisions had, however, already been established to facilitate the restoration of damaged property. Reference is made to them in article 68 of the Law of 1 October 1947 which, furthermore, specifies that some of the provisions are in force.

The regulations with regard to advances and loans, prior to the Law on War Damage to Private Property, may be summed up as follows:

As early as 1940, loans were made for the restoration of property destroyed as a result of the war. Such loans were used to enable those who

had lost all they had to purchase furniture and personal effects, to enable farmers who had suffered from war damage to replace live-stock and farm equipment, for the reconstruction of private and industrial buildings and to set industrial and commercial concerns in operation again.

More than twenty decrees governed the granting of such loans. When all war-time legislation was invalidated at the liberation, the Government nevertheless considered it desirable to keep that particular body of legal provisions in force. Such was the purpose of article 1 of the Decree-Law of 30 November 1944. Subsequently, before the enactment of the Law of 1 October 1947, the scope of the regulations was broadened by further Decree-Laws. Among them were: a Decree-Law of 12 June 1945 (Moniteur Belge of 23 June 1945) modifying the Decrees of 19 October 1940 and 26 November 1942 on the issue of loans to farmers through the medium of the National Agricultural Loan Institution (Institut National de Crédit Agricole), a Decree-Law of 28 February 1947 (Moniteur of 24 and 25 March 1947) empowering the National Professional Loan Fund (Caisse Nationale de Credit Professionel) to make loans for the repair of Belgian inland water craft. Another Decree-Law of 28 February 1947 (Moniteur of 6 April 1947) empowers the National Agricultural Loan Institution to make loans for the restoration of buildings on farms run by the owner.

Since the Law of 1 October 1947 came into force, war damage victims are eligible for State guaranteed restoration loans to supplement the compensation they receive. Such loans are made by institutions under State control and designated in Royal Orders in Council.

The amount of such loans, the conditions of granting, rate of interest and conditions of repayment were regulated by the Order in Council of the Regent dated 31 December 1948.

The rate of interest is the same as the legal commercial rate, but the State makes a contribution towards interest charges. The proportion of the rate met by the State, as far as damage to immovable property is concerned, is equal to the difference between the full rate and 2%.

In the case of loans made by the National Industrial Loan Company (Société Nationale de Crédit à l'Industrie), the rate of interest borne by the victim of war damage is 2.75%, in general, and 3.75% for stocks.

Since the Law of 1 October 1947, other legal measures have been taken with regard to advances, namely the Law of 6 January 1950, authorizing advances to beneficiaries of compensation for war damage and of restoration loans, in anticipation of actual payment of the sums granted.

The conditions under which such advances are to be made were fixed by Order in Council of the Regent of 18 February 1950.

The object of the Law and Order in Council is to make the means of reconstructing their property more rapidly available to war damage victims by introducing a summary and simplified procedure enabling a very large number of cases to be dealt with more promptly, pending their final consideration.

Such legislation at present, however, applies only to damage to buildings and ships.

Restoration loans (buildings) issued through the O.C.C.H.

	<u>Number</u>	<u>Amount granted</u> (in million francs)	<u>Amount repaid</u>
1940-1944	19,996	543.2	465.9
1945	7,111	508.2	286.9
1946	12,391	1,285.6	1,072.6
1947	8,671	1,149.1	971.7
1948	7,387	1,169.4	984.6
1949	3,849	671.0	788.2
1950	2,435	459.5	482.8

## LOANS

S O U R C E	I Loans for new house building			II Loans for repair or upkeep work			III Loans for the purchase of houses			IV Total housing loans		
	1938	1948	1949	1950	1938	1948	1949	1950	1938	1948	1949	1950
State, municipalities and public bodies												
General Savings and Superannuation Fund		91.1	233.5		37.5	31.6	161.7	237.1		290.3	502.2	
Loans on mort- gage		105.5	407.6		54.6	78.6	202.7	482.1		362.8	968.3	
Discount credit		26.4	32.4		-	-	127.3	198.4		153.7	230.8	
Agricultural loans		-	2.0		1.3	0.7	2.3	6.9		3.6	9.6	
Loans on col- lateral		2.8	0.4		-	-	-	-		-	0.4	
security												
Loans to towns												
and communes												
Agricultural credit companies		445.5	1735.8	2174.6	38.2	73.1	553.2	771.9	656.4	1036.9	2580.8	2868.0
National Low-Cost Housing Society		283.0	1483.5	2111.6	-	-	-	-	-	283.0	1483.5	2111.6
National Small Rural House Property Company			387.7	441.4		27.4	20.4	9.1	11.7	142.0	424.0	473.0
Housing Fund of the Large Families League		5.4	24.0	-	-	-	-	-	-	17.0	46.3	269.0
National Professional Loan Fund		77.5	101.6	93.6	-	-	71.7	98.6	180.0	149.3	200.2	301.9



DIFFERENT FORMS OF ACTION BY THE PUBLIC AUTHORITIESI. Low-cost Housing

The Belgian Government's low-cost housing policy is twofold. It encourages (1) the building of houses by private individuals and (2) the erection of dwellings for persons with limited means who cannot afford to become house-owners. In the latter case, the Government operates through the National Low-Cost Housing Society (Société Nationale des Habitations et Logements à Bon Marché) and its approved societies, which may also sell some of their houses to private individuals of small means, who receive a grant towards purchase.

The National Small Rural House Property Company (Société Nationale de la Petite Propriété Terrienne) grants loans to persons building small properties to certain specifications. It also builds groups of small rural properties for sale.

A. Assistance to the two national building organizations and their approved societies

Instead of repeating how these bodies function, let us merely recall the assistance they receive from the State:

- 1) direct advances;
- 2) the backing of the General Savings and Superannuation Fund (Caisse Générale d'Epargne et de Retraite);
- 3) State responsibility for the difference in rates of interest between loans granted by the national organizations and those they must raise on the market or obtain from the General Savings and Pension Fund;
- 4) the right, since 1949, to have their loans guaranteed by the State.

As early as 1947 special measures were adopted in connexion with the building of houses for miners. A building programme covering 25,000 dwellings and loans was authorised for the purpose through the National Low-Cost Housing Society. By the end of 1949 only 3,660 dwellings had, in fact, been completed

and although the programme has not been shelved, it is being carried out on a much more modest scale.

As to general housing requirements, a law of 15 April 1949, the "Brunfaut Law", extended the scope of assistance by stipulating that the State shall subscribe to the loans of these national organizations where necessary in order to guarantee them, for the period 1950-55, a working capital of 2,000 million and 450 million francs respectively, these being the amounts required to build 10,000 houses per year.

In 1949 the State also advanced:

- to the National Low-Cost Housing Society ..... 1,340 million francs
- to the National Small Rural House Property Company ..... 290 million francs.

B. Assistance to individuals

Assistance to individuals takes various forms, which may be summarized as follows:

a) Subsidies

Under Royal Decrees of 1922 interest-free grants were paid to persons of limited means who had a house built for their own use or purchased one from an approved building society.

A new system of grants adapted to present economic conditions was introduced under the "De Taeye Law" of 29 May 1948, which was renewed by the Law of 20 March 1951.

At the present time a grant is paid to any person who, at any time up to 31 December 1955, has a house built for his own use or purchases one built or about to be built for:

- (i) a society approved by the National Low-Cost Housing Society;
- (ii) a society approved by the National Small Rural House Property Company or the company itself; or
- (iii) a commune or public assistance board.

Both the recipient of the grant and the house must comply with certain conditions which are designed to confine the application of the provisions to dwellings of moderate size and to prevent speculation (limitation of floor areas, standard designs, owner must occupy house for a period of ten years, owner must not possess sole proprietary or beneficial interests in another house, etc.).

The basic grant is 22,000 francs, which is increased by 10% for property situated in communes with a population of more than 30,000 and by 20% for property situated in large built-up areas. There is a further increase of 20% per dependent child.

..... Number of grants paid

	<u>1948</u>	<u>1949</u>	<u>1950</u>
For building	725	17,358	23,667
For purchase	24	1,036	1,917

Average grant paid during these three years: approximately 31,000 francs.

In 1948 and 1949 most provinces introduced a system of supplementary grants. The average grant paid varies between 5,000 and 16,000 francs, according to the province.

b) Low-interest loans

1. The loan societies approved by the General Savings and Superannuation Fund have always granted loans at a rate of interest (now 3.75%) much lower than the normal rate, to persons of limited means wishing to become the owners of small houses.

Since the war special loans at a very low rate of interest have been granted to two sections of the community.

Miners who take out a loan on the usual terms with a loan society approved by the General Savings and Superannuation Fund, or with the National Small Rural House Property Company, or with one of the provident funds for which the Ministry of Labour is responsible, are granted a rebate by the State which has the effect of

reducing the rate of interest on the loan to  $2\frac{1}{2}$ , 2,  $1\frac{1}{2}$ , 1 or  $\frac{1}{2}$ %, according to the length of service in the mines. These reduced rates continue to operate for the duration of the contract.

2. In addition, large families can obtain low interest loans from the Housing Fund of the Large Families League, the annual rates being as follows:

3.25% for a family with 3 dependent children, out of a total of 4 or more living at home;

2.5% for a family with 4 dependent children living at home;

2% for a family with 5 dependent children;

1.5% for a family with 6 dependent children;

1% for a family with 7 dependent children; and

0.5% for a family with 8 or more dependent children.

The new system of loans on mortgage for large families of small means was introduced under the Decrees of 18 May and 1 June 1949.

This Fund is maintained by State-guaranteed loans from the General Savings and Superannuation Fund, and the State is responsible for meeting the differences in rates of interest.

The scope of the operations of the Housing Fund is shown in the note entitled "Various types of Loan to house-owners".

3. As has already been stated, the general activity of the loan societies approved by the General Savings and Superannuation Fund has been much more extensive. Although there is no interest rebate in their case, the rate is distinctly lower (3.75%) than that normally charged for loans on mortgage, since funds come out of savings bank deposits, which carry a lower rate of interest than long-term investments.

In order to facilitate such loans, and particularly loans to promote building, the law of 29 May 1948 authorized loan societies approved by the Savings Fund and small rural property societies to make loans, grant included, of up to 90% of the value of the property, or 100% of the value of the building, not including the land. The State guarantees repayment of any

amount in excess of 70% of the total value of the property. This applies, of course, to loans for the building of low-cost houses or small rural properties.

c) Tax relief.

In addition to certain reductions in land tax, which are allowed in the case of large families (reduction of 10% per dependent child) or to seriously disabled men, the exemptions include:

- 1) complete exemption from land tax for a period of 10 years where dwellings have been built since 30 June 1935, on condition that:
  - the owner has not received the grant provided for by the de Taeye law (of 28 May 1948);
  - the house complies with certain hygienic and living standards;
  - the rateable value does not exceed a certain figure;
  - the house does not belong to a society approved by the National Low-Cost Housing Society, has not been built with monies received as compensation for war or fire damage, and is not used as a holiday residence or for the sale of liquor.

Moreover, interest on mortgages is exempted from unearned income tax up to an amount not exceeding the rateable value of the property.

This provision undoubtedly encourages loans for the purchase of real estate.

- ii) exemption from or reduction of the land tax for a period of 10 years in the case of property built principally as living accommodation, and which has been rebuilt following war damage.

The basis for such exemption is the difference between the rateable value assigned to the property before and after damage respectively, provided that the difference amounts to at least 50%.

- iii) exemption from or reduction of land tax on the grounds of inadequate real income.

## II. Rebuilding of Damaged Property

We have already described the conditions under which persons whose homes were destroyed during the war have, in recent years, been able to obtain interest-free advances and loans at low rates for rebuilding.

This policy of granting interest-free advances against compensation for war damage has been strengthened by the law of 6 January 1950, the application of which is at present confined to war damage to houses and boats.

The claim to final compensation is at the same time being strongly advocated.

Under the law of 1 October 1947, persons whose property has been damaged by military action and who have a right to compensation have been divided into nine categories according to the net value of their possessions as at 9 October 1944. The law of 1 October 1947 provides for full compensation for damaged housing property belonging to persons in Category A (possessions valued up to 200,000 francs as at 9 October 1944) who possessed no real estate exceeding 80,000 francs in value on 31.8.1939. This principle of full compensation will be retained in the revised scheme at present under consideration. 75% of the persons whose property has been damaged by military action are known to belong to Category A. The compensation to be paid is worked out by applying a co-efficient to the total assessed damage on the basis of rebuilding costs as at 31 August 1949. This co-efficient varies according to the category to which the claimant belongs, and according to the extent of the damage.

The total compensation paid out for housing property since this law came into operation has been as follows:

(in millions of francs)			
	<u>In 1948</u>	<u>In 1949</u>	<u>In 1950</u>
Reconstruction of property	} Loans, credits for completely destroyed } re-building, and } complete compensation		
		1,903.4	1,548.3
		<hr/>	<hr/>
Total	1,903.4	1,548.3	

### III. CONCLUSION

#### Summary

A. The aim of State action is:

- in the first place, to improve the housing of the people, either by facilitating the acquisition of small property through purchase or by building, or by subsidizing local or regional societies that build for the purpose of letting to persons of modest means;
- subsidiarily: to facilitate the rebuilding of war-damaged property.

B. During recent years and up to the present time Government assistance has assumed the most varied forms:

#### a) Capital subsidies

- grants to small rural proprietors (Law of 29 May 1948, extended by that of 20 March 1951);
- war damage payments to individuals (Law of 1 October 1947 and Law of 6 January 1950).

#### b) Reduction of interest in the case of:

- buildings put up by official low-cost housing organizations;
- loans to miners;
- loans granted to large families by the Housing Fund of the Large Families League;
- war damage advances to individuals.

#### c) State guarantee of settlement

This guarantee is given in the case of:

- loans to miners;
- loans made to persons receiving grants under the Law of 29 May 1948, for the purpose of raising the extent of the loan from 50 - 60% of the building costs, i.e., the normal proportion, to 90% of the total value

of the property, or to 100% of the value of the building loans made by the National Low-Cost Housing Society, the National Small Rural House Property Company and the Housing Fund.

d) Direct advances

- to loan or building organizations for working-class housing (National Low-Cost Housing Society, the National Small Rural House Property Company, the Housing Fund of the Large Families League);
- war damage payments to individuals.

C. As in most countries, the various forms of action have the twofold object of:

- reducing the financial burden on owners (either individual owners or the National Low-Cost Housing Society);
- providing additional treasury grants for building. These grants are limited by the sums that can be obtained on the money market, from the major financial establishments such as the General Savings and Pension Fund and from the State itself. The source of credit chiefly used has varied at different periods.

D. Where working-class housing is concerned, the system relies on the vast experience acquired by an organization of long standing (the General Savings and Superannuation Fund, loan societies, the National Low-Cost Housing Society and approved societies, etc.).

Owing to the many laws and regulations successively enacted the system may perhaps seem to be more complicated than it really is. In one of the most recent basic laws, however, it appeared necessary to centralize all unsecured Government loans for working-class housing. A "National Housing Fund", financed by an annual grant from the budget, was therefore set up.

E. The Belgian Government attaches great importance to encouraging the private ownership of dwellings.



F. Since the liberation and before 1948 and 1949, State action in the sphere of housing was, in practice, confined to:

- war damage payments to individuals;
- the housing of miners.

Following the impetus given to working-class housing by the Law of 29 May 1948, which is to remain in force until the end of 1955, and by the Law of 15 April 1949, there is reason to believe that the problem of providing an adequate number of houses in Belgium will be satisfactorily solved within the next four or five years.

The public authorities will then be in a position to attack the problem of insanitary dwellings more vigorously and systematically.

---

PUBLIC HOUSING AID

(in million francs)

RECAPITULATION

	From 1920 to 1939 inclu. (inter-war years)	From 1940 to 1946 inclu.	1947	1948	1949	1950	Loans outstanding and shares in capital held on 1/1/51
I. <u>LOANS:</u>							
TOTAL.....	5,754.2	3,312.1	2,770.0	2,827.8	5,188.0	7,535.0	
II. <u>SUBSIDIES AND COMPENSATION</u>							
TOTAL.....	399.6	74.5	5.2	10.0	1,649.0	1,872.0	
III. <u>DIRECT BUILDING AND PARTICIPATION IN CAPITAL</u>							
TOTAL.....	1.0	-	3.6	26.0	7.5	49.2	
GRAND TOTAL.....	6,154.8	3,386.6	2,778.8	2,863.8	6,844.5	9,456.2	

Chapter XV

D E N M A R K

Although agriculture is of greater relative importance in Denmark than in the other Northern countries, the extent of urban development is practically the same as in Sweden, i.e. about half the population lives in towns; and it is more pronounced than in Norway and in Finland. The most striking characteristic of the distribution of the Danish population is the overwhelming importance of the capital. Copenhagen and the neighbouring communes account for one-third of the total population of the country.

By reason of the substantial building activity during the period between the wars, the housing situation was fairly satisfactory before the outbreak of the second world war. Owing to the lower level of rents the floor-space standard (calculated on number of rooms) was on an average higher than in Sweden.

In spite of the German occupation, which in Norway and the Netherlands, for example, brought housing production practically to a standstill, Denmark managed during that period to keep production at a fair level. From 1941 to 1945 the housing production figures reached an average of more than 10,000 houses a year, as compared with 14,000 in 1938, and 21,000 in 1939. In this respect, the course of events in Denmark resembled that of Sweden rather than of the other belligerent or occupied countries.

Nevertheless, there was a decided shortage of houses in Denmark during the war years, estimated by the beginning of 1948 between 35,000 and 40,000 houses at least.

As a result of scarcity of building materials and labour shortage, production during the early post-war years was lower than it had been during the war, so that the housing shortage increased. The shortage of labour was particularly pronounced during that period, partly because a large proportion of building labour was diverted to repair work.

Since 1948, housing production has again risen to pre-war level or even higher. Inflationary pressure and the critical monetary and financial situation in Denmark during the past year have naturally increased housing difficulties.

Developments in the financing of housing projects

The system of real estate financing in Denmark has for a long time been extremely stable and uniform. As far back as the middle of the 19th century, legislation was introduced to cater for financing corporations. The main principles of that legislation have remained in application until the present day, and have been taken as a model by the other Northern countries, although the financing corporation system of credit for housing in those countries has not been developed to anything like the same extent as in Denmark.

The financing corporations are co-operative organizations, the members being themselves owners of property on mortgage, who make themselves jointly responsible for the liabilities of the corporations. The necessary capital is obtained by issuing debentures secured by mortgages on the buildings. The debentures are not guaranteed by the State, so that the financing corporations enjoy a considerable measure of autonomy, and they are exempt from payment of stamp-duty to the State.

There are at present twelve financing corporations in Denmark, each operating in its own area.

Loans are granted on the basis of valuations conducted by experts appointed by the corporations. According to law loans may be granted for an amount not exceeding 60% of the valuation. In practice, however, they are considerably below that figure. Especially as a result of the sharp rise in building costs which took place between 1940 and 1950, the corporations have followed an extremely cautious loan policy and in the last year or two, loans have not covered more than about one-third of production costs.

The interest on the corporation loans is controlled, but in the case of new loans it varies, in the main, according to the prevailing rate of interest on the debenture market. During the post-war period the rate of interest has fluctuated between 3% to 5%. By law, loans must be redeemed within a period not exceeding 50 years.

The function of the financing corporations is to grant first mortgages, the so-called mortgage companies being responsible for granting second mortgages.

The activities of the mortgage companies, some of which were established as far back as the end of the 19th century, are largely identical with those of the financing corporations, but as the degree of security is less satisfactory, the interest is higher and the loans must be redeemed within a period not exceeding 50 years.

Under current legislation, mortgage companies may grant second mortgages amounting to 75% of the valuation. In practice, however, such loans generally amount to a quarter of the first mortgage; and since, as already stated, first mortgages are at present between 30% and 35% of the building cost, the first and second mortgages together amount to only about 40% of the cost of the building and the site.

To reduce the investment risks involved under the Danish first and second mortgage system in the event of a slump in quotations for debentures while building is in progress, measures have been adopted during the past decade in the form of bank guarantees prior to the commencement of building operations, or in critical situations, in the form of short-term loans.

The financing corporations and mortgage companies occupy a predominant position in private real estate credit operations in Denmark. Apart from them, only the savings banks are of any appreciable importance in this field. Mortgage loans made by savings banks however, amount to only about one-sixth of those granted by the corporations and mortgage companies. Direct participation by insurance companies and other credit institutions in real estate financing is very slight, though establishments of this kind play an indirect part in such operations by the acquisition of debentures from the corporations and mortgage companies.

Although excellently organized, Danish real estate financing operations have been unable to satisfy the constantly growing social need or to overcome the financial crises which have affected building operations particularly as a result of the two world wars. The State has for some time past furnished financial aid towards housing projects for specific purposes and in special circumstances.

A very important factor in the development of rural housing since the turn of the century has been the policy applied by the other Northern countries too - of granting State credits at very low interest rates for the establishment of smallholdings.

As far back as 1887, the State inaugurated the policy of granting loans to communes and co-operative building societies which erected low-cost workers' dwellings. Actually, the housing co-operatives were developed very early in Denmark but their activities have been on a very small scale. By the beginning of the first world war about eight million Danish crowns had been made available in the form of State loans, mainly to co-operative housing enterprises.

The building crisis during the first world war called forth large-scale governmental measures. Tax relief, loans and subsidies were granted not only to communes and co-operative organizations, but also to private builders. From 1916 to 1932 about 60% of all newly-built houses were erected with financial aid from the State.

In 1922 a State housing fund was established for granting loans up to 85% or even 90% of the value of the buildings. From 1922 to 1937, about 70% of all housing projects were financed by loans from that fund. They were mainly schemes under the control of the communes and the co-operative organizations, or small dwelling houses. Difficulties involving losses to the State and to the communes arose because of the slump in prices and wages consequent upon the currency policy measures adopted in the middle of the 'twenties.

During the period from 1927 to 1933 housing construction was left to private enterprise, with no official help apart from tax reliefs. House-building was carried out on a large scale, but owing to price-increases which were not taken into account in the financing corporation and mortgage companies' valuations, the cost of financing operations rose considerably. That situation coupled with measures adopted in connection with unemployment policy, resulted in the passing of a new law in 1933, whereby the State again granted direct State loans covering as much as 95% of the value in the case of communal and co-operative projects. For private borrowers the upper limit was somewhat lower. That policy was

suspended in 1936, but was re-introduced in 1938, and it has gone on ever since, subject to modifications necessitated by economic conditions during and since the war.

Under the terms of the 1938 law, State loans could be granted only for communal and co-operative projects (up to 97% of the value) and for small dwelling houses but not for private building schemes. Owing to the critical housing situation during the first years of the war, however, loans to private contractors were re-established in 1941. An important feature of the legislation of 1933 and 1938 was the introduction of regulations governing the activities of co-operative housing schemes and stipulating that the surplus remaining after the capital was written off should not accrue to the individual members of the organizations, but be used for further building so that the organizations would ultimately be self-supporting.

Before the war, housing construction financed by State loans represented only a small proportion of the total. From 1933 until the beginning of the war, over three-quarters of all housing construction was financed without the help of State loans. Nevertheless, State lending during the thirties was a factor of importance in many respects. It not only laid the foundations of co-operative building and erection of small dwelling houses, but it also meant that machinery for State financial support was already available and in operation, when the house-building situation became critical during the first years of the war.

The rise in building costs during the war raised the problem of the relation between the rents of existing buildings and those of new buildings; and general rent regulations were introduced which pegged down the rents of pre-war houses at the 1939 level. To smoothe out inequalities in rent levels it became necessary to subsidise the new houses. To that end, it was decided to introduce loans at a nominal interest (i.e. at a rate of interest even lower than for State loans), deferred redemption facilities and tax reliefs. In addition, rent allowances were made to large families. Under the regulations introduced during the war years, the rate of interest could be as low as 2.2% for communal and co-operative multiple-family houses and 1.7% for single-family houses and

terraced houses. From 1941 to 1944, 75% of new houses were built with the aid of State loans.

By the end of the war, the industry had to make good an accumulated deficit of tens of thousands of dwellings, apart from meeting the normal annual demand (estimated as a further 14,000 dwellings) and compensating for the ultimate shortage created by slum-clearance. To help to fulfil this building programme, which was not considered feasible without continued State support, a new law was passed in 1946, to remain in force until the financial year 1953-4, providing for loans amounting to 75 million Danish crowns per annum for "social housing construction" (communal and co-operative projects); loans of 20 million Danish crowns per annum for single-family houses and owner-occupied terraced houses; and small loans for certain special building purposes. Provision was also made for a certain sum, not specified under the law but to be assessed under the annual finance legislation to be lent for financing private housing projects. The law also laid down rules governing the grant of subsidies in the form of nominal interest rates, and corresponding in the main to similar rules in force during the war. In addition, provision was made for special subsidies to certain groups, especially large families and aged persons; tax reliefs in connection with housing construction; and participation by the communes in the financing of housing projects. Parts of the law of 1946 have been modified on several occasions, the most recent instance being in June 1951; but the fundamental provisions have remained unchanged.

#### Current financing conditions

The proportion of housing construction drawing upon State loans has changed somewhat during the post-war period. In 1946 and 1947, 40% of all new dwellings were built without State loans. As these dwellings were not subject to rent restrictions the result was a considerable disparity in rental levels. In the meantime the increases in building costs coupled with a restrictive loan policy on the part of the financing corporations and mortgage companies have made private housing construction financed without State loans more difficult; so that in the last few years the proportion of dwellings built without State aid has dropped to



about 20% of the annual production. Dwellings entirely financed from private sources comprise larger types of single-family houses owned by relatively well-to-do persons not eligible for State loans, multiple-family houses and a fairly large proportion of business premises, etc. The financial conditions applying to this class of buildings vary considerably.

The financing conditions governing the majority of housing projects in receipt of State loans are precisely defined by the conditions on which the loans are granted. Special regulations are laid down by law regarding loans for "social housing", for the construction of owner-occupied detached or terraced houses, and for commercial and other private housing projects. The law also lays down regulations governing grant of subsidies to special categories of persons in need of accommodation, etc.

The "social housing construction" scheme which, in the course of the past few years, has been responsible for about half the houses built, is conducted mainly by organizations known as "housing associations", "housing societies" or "owner-occupier building enterprises", which evolved from the earlier building co-operatives and were established in their present form by the legislation of 1933 and 1938 already referred to. These organizations, although legally independent, are supervised by the State and they are so controlled financially and economically by law that they may be regarded as instruments of social housing policy.

As already explained above, social housing construction projects usually procure first and second mortgage loans from the financing corporations and mortgage companies respectively. These loans, however, cover only a small part of the building costs. The annual interest on the loans varies according to the prevailing interest rate for debentures, but in the last year or two it has been about 5% for first mortgage loans and 6% for second mortgage loans.

The State loan is directly ancillary to other capital raised by loans and no lower limit is specified under the law. Thus, the amount of the State loan automatically varies according to the availability of first and second mortgage loans on the open market. It may, however, be arranged for the State loan to

follow immediately on the first mortgage loan, if that is considered necessary in order to reduce the total capital charges. Furthermore, in cases where a subsidy is granted in addition to the loan, it may be decided that the amount of the first mortgage loan shall not be the maximum obtainable.

The upper limit of the State loan depends on the extent to which the commune is prepared to guarantee a certain part of the loan. A loan made direct to a commune which operates its own building scheme may amount to as much as 95% of the value or building cost. Loans equivalent to as much as 85% of the value may be granted to social housing enterprises, without communal guarantee. This limit may, however, be raised to 95% or in very special circumstances to 97%, provided that the commune is willing to guarantee that part of the loan in excess of 85% of the value or building cost.

(Amendments introduced this year into the regulations governing communal guarantees provide that for houses built in the future these guarantees may be reduced in accordance with definite rules, if the amount of the guarantee to be carried by the commune exceeds a given sum per head of the inhabitants).

The basic provision governing annual interest and redemption charges on State loans is that  $4\frac{1}{2}\%$  of the amount of the loan should be paid annually,  $3\frac{1}{2}\%$  representing the interest, 0.2% a contribution to the reserve and administration fund, and the remainder redemption charges respectively. On the basis of the rent level established, however, this annual payment may be reduced in accordance with specific rules. In the main, this is the form in which the general subsidy associated with State loans is given.

Social housing enterprises may be granted either an extension of the redemption period or a reduction of interest not exceeding  $1\frac{1}{2}\%$  for a maximum period of twenty years, or in the case of detached or terraced houses up to 2%; or, again, an extension of the redemption period and reduction of interest as well. Where necessary, therefore, the annual capital expenses for twenty years ahead may be reduced to 2.2% in the case of multiple-family houses and to 1.7% for detached or terraced houses constructed under the auspices of social housing enterprises. Immunity from redemption and reduction of interest may be cancelled if the financial situation of the property shows improvement or changing conditions in housing construction warrant it.

In addition to the general subsidies in the form of reduction of interest and extension of the redemption period, special subsidies may be granted to large families, aged persons, invalids and incurables. In such cases, the subsidies take the form of a reduction in rent.

Under the Law of 1946, those eligible for such reductions are families with three or more children occupying apartments of at least three rooms and kitchen in blocks of flats managed by a commune or a social housing enterprise, and individuals with two children entirely dependent on them for support and occupying dwellings of a size consistent with the family's needs.

As in Sweden, rent reductions vary according to the number of children, and amount to 30%, 40%, 50%, 60% and 70% respectively for families with 3, 4, 5, 6 and 7 or more children, or 25% in the case of individuals with two children entirely dependent on them for support. The reductions may not exceed certain fixed amounts, which are somewhat higher in Copenhagen and the adjoining communes than in the rest of the country.

As a result of the amendments introduced this year into the provisions of the Law of 1946, the subsidies have been raised to 35% and 75% of the rent, according to the number of children, i.e. 3 to 7 or more, for families living in houses built in 1950 or later. Furthermore, families with two children now have the right to a reduction of 20% if the commune takes a general decision to that effect. Again, persons with one child entirely dependent on them for support have the right to a 20% reduction in rent, and with two such children, 30%. It should be noted that these increased subsidies are granted only in the case of houses built at the inflated prices current during the past few years.

Only families of limited means with children are entitled to these subsidies, half the cost of which is borne by the State and the other half by the commune.

Old-age pensioners, invalids and incurables living in blocks of apartments managed by the communes or by social housing enterprises are also entitled to subsidies, half the cost being borne by the State and the other half by the commune.

For detached or terraced houses for owner-occupation, State loans are granted on the condition that the building costs do not exceed a certain amount and that the prospective owner while not a person of means, is considered capable of meeting the interest and redemption charges on the loan.

These loans amount to 85% of the value or building cost of the dwelling, but they may be raised to as much as 95% if a communal guarantee is given for the amount represented by the difference between the 85% and 95%.

Where the borrower is of limited means and has a large family, the basic annual payment rate of  $4\frac{1}{2}\%$  on the loan is reduced to 2%, of which 1% represents the interest. If the person concerned took possession of the dwelling in 1950 or later, the annual payment is reduced to 1.2%, of which 0.2% represents the contribution to the reserve and administration fund, and the remainder the redemption charge.

Borrowers other than large families may be granted an extension of the redemption period by not more than 20 years or a reduction of interest by not more than 2%, or both. If the interest is reduced, the annual payment on the State loan amounts to 1.7%.

Building loans for social and cultural purposes, e.g. youth centres, child welfare centres, recreation centres, assembly-halls, etc., may be granted on terms similar to those for housing construction.

Loans for private building projects may be granted up to a maximum amount of 80% of the value of the dwelling or of the building cost. The limit may be raised to 85% if the borrower is employed in the building trade, and if the building cost does not exceed the maximum amount fixed for detached or terraced houses for owner-occupation. If a communal guarantee is given for the difference in excess of 85%, the loan may be raised to 90%, or 95% respectively of the value of the dwelling or of the building cost.

If it is found necessary in order to maintain rents at a reasonable level, postponement of the redemption period by not more than 20 years, or reduction of the interest by not more than 1% (1.5% in the case of detached or terraced houses), or both an extension of the redemption period and a reduction of

interest, may be granted. In the event of reduction of interest, the annual payment due on the State loan will be 2.7% for multiple-family houses, and 2.2% for detached or terraced houses. As in the case of other categories of loans, the proviso is made with regard to loans to private borrowers that the extension of the redemption period and the reduction of interest may be discontinued if the financial situation of the building shows improvement, or if changing conditions in housing construction warrant it.

In addition to the loans and subsidies described above, blocks of flats built under the Danish housing programme between 1946 and 1954 are exempted from property tax.

To sum up the conditions governing the grant of loans and subsidies to meet the total building costs of the greater part of State-aided housing, it may be stated that these costs vary considerably, particularly as regards the special subsidies granted to families with children. As in Sweden, the grant of such subsidies may mean that in the case of a large family or an old-age pensioner, the capital charges for a dwelling are practically nil. Even apart from the special subsidies, the capital charges fluctuate because the conditions applying to loans and subsidies differ according to the type of dwelling - multiple-family house, detached house or terraced house - and according to the various categories of borrowers. The variations in the range of first and second mortgages and the State loan, as well as the occasional fluctuations in interest rates on first and second mortgage loans are also factors to be considered. Assuming that the second mortgage loan amounts to 40% of the value, and the interest on the first and second mortgages is 5% and 6% respectively; and calculating the capital investment return at 6% in the case of private projects and 4% in the case of social projects, the total capital charges for multiple-family houses will vary from about 3.4% for social housing projects in receipt of State loans of up to 97%, to about 4.4% for private projects in receipt of State loans of up to 80%. In the case of detached or terraced houses, the capital charges involved will be somewhat lower.

Some particulars of the various methods of financing housing projects, according to the form of financial assistance granted, are given below.

I. Public or Co-operative Building Societies

	Principal	As a percentage of total cost	Interest	Cost of administration and management	Total	Redemption period
	Cr.	%	%	%	%	Year
1st Mortgage	280,000	28.0	4.5	0.05	4.96	60
2nd Mortgage	65,000	6.5	5.0	0.15	5.60	40
State Loan	625,000	62.5	2.0	0.2	2.2	69 <sup>(a)</sup>
Tenant's share	30,000	3.0	5.0	-	5.0	-(b)
Total building cost	1,000,000					

(a) For the first 20 years the total annual payment amounts to 2.2% of the principal, without any amortization. After that, the annual payment rises to 4.5% of the principal of which 3.5% represents interest on the debt, 0.2% a contribution towards cost of administration and management and the balance amortization. In the case of terraced or one-family houses, the annual payment, for the first 20 years, amounts to 1.7% of the principal, 1.5% representing interest and 0.2% contributions to cost of administration and management. At the end of that period, the annual payments are increased to 4.5% as shown above.

(b) Finance Corporations and the State provide 97% of the total building cost. The balance is supplied by the tenant who is required to contribute 3% of the building cost before he moves in. The tenant is entitled to 5% interest on his advance payments and can sell his share through the building society when he leaves.

II. Owner-occupied one family Houses erected  
by persons of Modest Means

	Principal	As a percentage of total cost	Interest	Cost of administra- tion and management	Total	Redemption period
	Cr.	%	%	%	%	Year
1st Mortgage	9,800	28.0	4.5	0.05	4.96	60
2nd Mortgage	2,275	6.5	5.0	0.15	5.60	40
State Loan	19,425	55.5	2.2	0.2	3.2	48 <sup>(a)</sup>
Owner's investment	3,500	10.0	-	-	-	-

(a) After the first 20 years, annual payments amount to 4.5% of the principal, of which 3.5% represents interest on the debt, 0.2% a contribution towards cost of administration and management and the balance amortization.

III. Houses built for Letting by Private Persons  
in receipt of a State Loan(a)

	Principal	As a percentage of total cost	Interest	Cost of administra- tion and management	Total	Redemption period
	Cr.	%	%	%	%	Year
1st Mortgage	280,000	28.0	4.5	0.05	4.96	60
2nd Mortgage	65,000	6.5	5.0	0.15	5.60	40
State Loan	455,000	45.5	2.5	0.2	3.2	56
Owner's investment	200,000	20.0	7.0 <sup>(a)</sup>	-	-	-
Total building cost	1,000,000					

(a) Where the Ministry of Housing grants a loan to a private person to build a house for letting purposes, the rent is controlled, and the highest rate of interest on his own investment to which the owner is entitled, as a part of the total running costs, is 7%.

IV. Houses for Letting Built by a Private Individual  
without a State Loan

	Principal	As a percentage of total cost	Interest	Cost of administra- tion and management	Total	Redemption period
	Cr.	%	%	%	%	Year
1st Mortgage	280,000	28.0	4.5	0.05	4.96	60
2nd Mortgage	65,000	6.5	5.0	0.15	5.60	40
3rd Mortgage	355,000	35.5	6.5-7 <sup>(a)</sup>	-	-	10-15
4th Mortgage	50,000	5.0	- <sup>(b)</sup>	-	-	-
Owner's investment	250,000	25.0	-	-	-	-
Total build- ing cost	1,000,000					

(a) Only small payments are made during the redemption period. The loan is redeemable at the end of ten years.

(b) In the case of 4th mortgages, it is not possible to estimate the interest or the length of the redemption period, as these two factors, among others, vary according to the situation of the building.



## Chapter XVI

### F I N L A N D

The distribution of the Finnish population between town and country reveals a much lower degree of urban development than in the other Scandinavian countries. Before the war only a little more than 40% of the population lived in the towns.

The standard of housing in Finland has been rather low as regards space available. To a still larger extent than was the case previously in Sweden dwellings consisted principally of units of one room, plus kitchen.

The two wars in which Finland took part after 1939 have, in different ways, had far-reaching consequences in the field of housing in the country. In the first place, more than 11,000 dwellings were completely destroyed by military action, and approximately 25,000 were partly destroyed or slightly damaged. The total extent of war damage has been estimated at about 2% of all dwellings existing in 1939. As in the case of Norway, the destruction was mainly in the northern parts of the country, where the climate, conditions of transport, accessibility of materials etc., make reconstruction very difficult.

Furthermore, Finland has lost in these wars a considerable part of its territory and is faced, in consequence, with a major problem of allowing the establishment, especially in the form of resettlement, of the refugee population. During the immediate post-war years efforts were accordingly concentrated on the direct reconstruction of territories devastated by war and on resettlement.

The interruption of housing projects during the war years has resulted in a serious shortage of accommodation in the towns. This shortage is still further aggravated by the refugee problem; it was estimated at the end of the war at about 60,000 to 65,000 houses.

As in the majority of European countries the lack of materials and of labour has been an obstacle to housing projects, apart from direct reconstruction work, during the immediate post-war years. In the last few years, nevertheless, building projects have reached a much higher level in Finland than before the war and one of the highest in Europe, allowing for the population of the country.

Considerable inflation and a very high rate of interest, which is one of the consequences of inflation, have resulted in the financial and economic conditions of building projects in Finland during the post-war period being very different from those in the other Scandinavian countries. While efforts, in the latter, have been directed to the organization of measures of financial support so that the rents of the new buildings should be, as far as possible, maintained at the level of those of dwellings previously constructed, this procedure has not proved possible in Finland, where the level of prices had increased more than ten times over in comparison with the pre-war period, and where the level of interest was from 8 to 10%.

#### I. Development of the financing of housing projects

Credits during the period of construction are chiefly supplied by commercial banks, but savings banks and insurance companies also help, in some degree, in providing finance. At present communes and industrial undertakings likewise participate indirectly to a certain extent, within the limits of their available resources. The rate of interest is, at the moment, from 8 to 10%, which means that capital expenses during the period of construction may be as much as 2 to 2½% of the total cost of production of the unit being built.

The financing of dwellings had, before the war, taken almost the same form as in Sweden and Norway, i.e., the savings banks, the insurance companies and the commercial banks, as well as private individuals, were the principal providers of funds in the matter of first and second credits, while special mortgage institutions of the type which has undergone considerable development in Denmark played only a minor part.

Savings banks are very important in the economic life of Finland. They are responsible for about half the total land credits both in the towns and in the country (without counting loans made by private individuals). The part played by insurance companies is especially important in the financing of urban projects, and in this field they provide about one quarter of the total credits granted by private credit institutions. The greater part of the remainder consists of loans by commercial banks, which take part in the financing of

housing chiefly by the granting of short-term credits during the period of construction. These establishments also make available to a certain extent first and second loans.

Since the middle of the nineteenth century, a mortgage institution has existed in Finland for the granting of credits to rural housing projects. It was not, however, until 1927 that a corresponding organ was created for credits to urban housing projects, the necessary capital for which was provided by the issue of debentures guaranteed by the State. However, its importance with regard to the total land credits is comparatively slight.

Loans on mortgage provided by private credit institutions amount in general to 50 to 55% of the guarantee. In the last few years, the rate of interest has been from 8 to 10%. As a result of the instability of conditions of credit after the war, redeemable loans in the true sense have practically ceased. Credit institutions have fixed various annual payments ranging between 1 and 4% per annum.

Hence private land credit in Finland has been very dear as a result of inflation and of the shortage of capital.

Taking into account social and agricultural programmes, which private land credit could not accommodate to the desired extent, the Finnish State has for a long time past made grants of cheap credit in the form of subsidies to resettlement undertakings. Though the main object of this activity was not housing policy but agricultural policy, it has nevertheless been of importance in the development of rural housing conditions. From 1890 to 1900 it was given a more systematic form and has been progressively extended by legislative measures. During the period following the two wars, this official credit activity for settlement purposes has acquired the greatest importance for the reconstruction of the areas of eastern and northern Finland devastated by the war, as well as for the provision of the means of sustenance and of housing for the population displaced as a result of the war from the territories which had to be given up after hostilities.

Even as regards ordinary urban housing projects, the State intervened fairly early in Finland. From the end of the last century the State has in fact granted loans to co-operative enterprises (called "housing societies") for the building of workers' dwellings. After the first world war, from 1920 to 1927, State aid for the construction of houses was extended. Housing projects benefiting from State loans did not, however, account for the main part of the total production of houses. The erection of houses to accommodate several families became entirely dependent on private finance which, in combination with a permanent shortage of urban dwellings, led to a rise in the level of rents.

The suspension of building during the war in the winter of 1939-40 and the cession of territory on the conclusion of peace brought about a great housing shortage, which made increased activity on the part of the State necessary in the financing of housing projects. At the end of 1940 new laws were enacted providing loans for small working-class houses, for so-called family-houses and for joint-stock companies' houses, the latter being considered as a form of housing co-operation.

The form taken by loans granted under the legislation of 1940 had one element in common; official credit was classed as second (or third) credit invested in the first loans granted by private credit institutions, and principally by savings banks. The State loan could only be a first loan after a first credit with acceptable conditions had proved impossible to obtain.

Loans for small working class houses according to the terms of the 1940 legislation could be granted up to the amount of 90% of the building costs. The period of redemption was usually 25 years and the rate of interest 5%. Loans for family-houses were granted for the building of tenement houses for large families with limited means to communes or to public utility undertakings up to 95%. The rate of interest and the period of redemption were the same as for the loans for small working-class houses. In order to reduce the housing costs of large families (with three children or more), the State granted a subsidy varying in accordance with the number of children, families with three children obtaining a 30% reduction of rent, families with four children 40%, and so on, up to 70%.

Loans for joint-stock companies' houses, such companies being co-operative concerns in which each owner of a flat possesses shares corresponding to one flat, were granted according to the provisions of the 1940 legislation up to the amount of 75% of the building costs or, if the commune guaranteed the amount in excess, up to 85%. The rate of interest was  $5\frac{1}{2}\%$  and the period of redemption usually 25 years.

These types of loans continued even after the second war in which Finland was involved, and which naturally again interrupted housing projects and aggravated the shortage. The resulting crisis necessitated new measures aimed, in the first place, at achieving rapid reconstruction in the areas of northern Finland devastated by the war. In order to reduce the grave housing shortage in urban localities loans for the building of small dwellings classified as "simple" were established at the end of 1944. These loans, which could be granted up to the amount of 95% of the costs, were at the rate of  $2\frac{1}{2}\%$  and redeemable within 25 years.

The war effort, the financial situation of the country and the lack of the necessary materials appreciably limited the amount of building which could be carried out under the legislation of 1940 and of 1944. Growing inflation and the sharp rise in building costs, as well as the high level of the rate of interest, necessitated additional and more extensive measures, which in 1949 took the form of new laws relating to loans and to the allocation of accommodation in order to further the building of houses. One of the principal marks of this legislation is the subsidizing of building projects by the fixing of a rate of interest far below the normal level for State loans to building projects.

## II. Present conditions of financing

In conformity with the Law of 1949, 22,000 millions were appropriated for building, to be spread over the years 1949 to 1953, in the form of redeemable loans at low rates of interest against second mortgages. This legislation laid down that first loans are obtained in the way described above in private credit institutions.

The normal method of financing is therefore such that first loans are supplied by savings banks, insurance companies etc., up to a limit which usually corresponds to about half the building costs and at a rate of interest from 8 to 10%, as well as under rather severe redemption conditions.

The conditions of State loans vary slightly according to the nature of the dwellings for which the loans are granted.

According to the law on loans for flats, the interest on these loans is not fixed; it can be increased or reduced during the period of the loan. According to the regulations in force the interest on all loans for houses is, until further notice, 1%.

For the present, the time allowed for the repayment of State loans on stone houses is 45 years, the repayment being so arranged that  $\frac{1}{2}\%$  of the building loan is repaid during the first five years, 1% during the next five and the remainder at a standard rate of about 2.6%. Twenty-five years are allowed for the repayment of loans on wooden houses, the rate being 2% for the first four years and the standard rate at 4% for the remaining 21.

State loans on workers' cottages and joint-stock companies' dwellings may be granted from a minimum of 40% to a maximum of 90% of the recognized building costs. The builder of a worker's cottage (or house) has himself to put up 10% either as labour or as capital. On an average, this individual capital has fluctuated between 15% and 20%. In the case of joint-stock companies' dwellings, the individual contribution must likewise not be less than 10%. On an average, it has been between 15 and 25%. In the case of building societies' "semi-communal" flats, the founder of the society, usually the commune, is answerable for all the registered capital and sells the flats to subscribers, 10 years being granted for repayment. The future owners buy their shares at the same time as they pay their monthly rent.

For the construction of blocks of flats to let, loans can be obtained up to a maximum of 65% of building costs, though such loans may, as before, be raised to 95% in cases of priority. These blocks of flats are usually constructed by

the communes and by industrial undertakings. In many cases, such undertakings grant extensive subsidies on accommodation intended for their staff.

Since the terms of interest and repayment are affected by inflationary trends in Finland, it is impossible to assess exactly the annual percentage capital outlay incurred in the construction of accommodation. From information provided by "Arava", the official Finnish body for housing credits, this capital outlay, expressed as a percentage of the building costs, amounts in the case of accommodation for which the State has granted building loans to from 4.5 to 6.1% for joint-stock companies' dwellings and to from 5.3 to 7.3% for blocks of flats to let. The extremely high rate of interest on the open market is thus to a large extent offset by the subsidy afforded by State loans. In terms of capitalized value, this subsidy amounts to from 35 to 40% of the construction costs of accommodation built with mortgage loans.

## Chapter XVII

### F R A N C E

Before commencing to study the methods and techniques of financing housing in France, it would seem desirable to recall the basic economic, political or psychological conditions under which these methods and techniques have been employed,

Under the influence of various economic and political factors - which there is no point in analysing - French savings activity since the war, in so far as it has survived or been resumed, has tended to take the following different forms:

- financing from own resources;
- financing of one private party by another;
- sight drafts or short-term investment;
- hoarding of wealth, particularly in the form of purchases of gold.

This has caused the public capital market to "run dry" and makes it very difficult to evaluate the annual volume of savings. The scarcity of capital on the market is one of the causes of the high rate of interest. This in turn affects the rate on investments as between private individuals.

Again, insurance, in general, and life insurance in particular, has never developed to the same extent in France as in Anglo-Saxon countries. There is a very complete system of compulsory social assurance but this is based on the distribution principle.

In French law, from the point of view of regulations a traditional distinction is made between immovable and movable goods; the former, which at the beginning of the nineteenth century constituted the main source of wealth, being subject to more detailed regulation than the latter. Transferable securities - and, more generally, commercial bills - come under the regulations for movable goods, which during the last 150 years have evolved and have been given greater flexibility to bring them into line with economic developments. Legislation



concerning immovable property, on the other hand, has undergone little change, one result being that capital invested in immovable property, and in particular that in the form of loans, is less flexible and less easy to mobilize than are other types of security. Moreover, it is often more expensive to do so, partly owing to such capital being governed by different fiscal legislation.

The French are generally reluctant to borrow. They tend to raise their standard of living far more out of their own savings than by resorting to loans, and credit purchase systems are relatively undeveloped in France by comparison with the majority of other countries. This reluctance to borrow is even more marked when the process involves revealing the applicant's financial situation to third parties.

Because of this thrifty bent preserved by a large part of the population, and particularly by those whose ties with the peasantry are quite strong, because of this reluctance to resort to loans, the French generally make the property and goods they possess last as long as possible and often keep and repair partly obsolete material rather than renew it. This tendency is to be met with as much in capital goods as in consumer goods and has had an undoubted influence on housing policy.

Traditional building methods make it possible to erect dwellings with a very long life, generally of more than 100 years. Dwellings erected during the nineteenth century and at the beginning of the twentieth appear in general to be of good quality, particularly as far as the main structure is concerned. Accordingly, they remain habitable - often, it is true, under rather unsatisfactory conditions - even though not kept in an adequate state of repair.

As, furthermore, the average Frenchman attaches relatively less importance to his dwelling than the inhabitants of many other countries, he generally prefers to devote a small share of his resources to it even though this means putting up with more imperfect accommodation. A large number of French people are quite resigned to living in old, often poorly equipped and sometimes unhygienic, houses. Thus it is that no strong trend of opinion has arisen in support of the efforts made between the two wars by a few people for a thorough renewal of dwelling accommodation.

Moreover, until recent years, no population pressure had been felt (except in certain parts, such as the Paris area). Urban development, although considerable, was probably less marked than in various other countries while the annual number of marriages and births fell. In 1939, France was the country with the highest total number of dwellings - sound or unsound - in relation to its population.

The opposite now tends to be the case. Owing, on the one hand, to war destruction and to the premature ageing of the national stock of dwellings which had too little upkeep for 20 years and none at all during the war and, on the other, to the increased expectation of life and the rise in the number of marriages and births, a quantitative housing crisis sometimes accentuated by bad population distribution has made its appearance almost everywhere since the war. The causes of this crisis have not disappeared however and it looks as if it will persist and even extend.

Be that as it may, during the first few years after the Liberation, the erection of new permanent dwellings, however necessary it might be, was not, at a time when the population was underfed and when the means of production were destroyed or obsolete, in the first rank of the problems to be solved. In the allocation both of rationed materials and of funds, first place was given to other sectors. Once consumer goods had become plentiful again and efforts to modernize the means of production had borne first fruit, the housing problem tended to become the matter of greatest concern to public opinion, new measures were taken by the State to develop building and considerable increases in rents were sanctioned.

As a matter of fact, rent legislation, since the end of the first world war, has had a depressing effect on the housing policy as a whole. Only at rare periods have the authorized rents for old dwellings been high enough to exceed half the rent which must be charged in new dwellings for the capital investment to be remunerative, taking charges and market rates of interest into account. In the years following the Liberation, rents did not rise concurrently with the cost of living and the gap became so wide that rents were often insufficient to

cover current and deferred upkeep expenses. Although from 1949 onwards an attempt has been made to re-adjust the situation, the increases sanctioned still leave old rents at rates generally lower than a quarter or a fifth of the rents which must be charged for new buildings built without any form of assistance and largely with loan capital.

Until the beginning of 1949, housing activity, apart from the provision of temporary accommodation, was mainly concentrated on the restoration of old building stock, whether partly damaged by the war or not. With regard to undamaged property, no statistical information can be supplied; the efforts of owners were, in any case, hampered both by the small amount of rationed materials available and by the low level of rents. On the other hand, some idea of the results obtained from the repair of damaged buildings can be obtained from the fact that, by the end of 1950, 757,000 dwellings had been repaired and made available for occupation.

From 1949 onwards, parallel with this restoration of old stock, the number of new buildings grew from year to year, as can be seen from the following table.

Number of new dwellings commenced since

1 January 1945

	<u>Completed</u>	<u>In course of construction</u>
As at 31 December 1948	55,000	75,000
As at 31 December 1949	107,000	104,000
As at 31 December 1950	175,000	145,000

Such are the conditions and tendencies governing present housing financing policy. The latter can be briefly analysed by studying in turn:

- the method of financing employed in the various building sectors;
- the extent to which funds are provided from own resources;
- the different types of loans obtainable;
- the extent of State aid and the conditions under which it is provided.

# I. Methods of financing employed in the various building sectors

Whether upkeep and repair expenses are concerned or the financing of new constructions, building activity in France may be divided into three sectors:

- rebuilding of damaged buildings;
- building carried out within the framework of legislation on moderate rental housing ("habitations à loyer modéré"<sup>(1)</sup> or H.L.M.);
- other dwellings.

As far as upkeep and repair expenses are concerned, the relative importance of the various sectors is difficult to ascertain. It can only be pointed out that from the Liberation until the present day, the reconstruction sector has enjoyed pride of place while cheap housing has been of slight importance. In the next few years the third sector will, it seems, tend to occupy first place.

With regard to new buildings, the present relative importance of the various sectors is approximately as follows:

Number of dwellings commenced between  
1 January 1945 and 31 December 1950

	Completed	In course of construction
Reconstruction	65,000	61,000
Cheap housing <sup>(a)</sup>	10,000	28,000
Other dwellings <sup>(b)</sup>	100,000	56,000
	175,000	145,000

(a) including building by private individuals with the assistance of loans from Building Loan Societies (H.B.M.)

(b) including building by the State and nationalized undertakings

---

(1) Formerly known as cheap housing "Habitations à Bon Marché" (H.B.M.)

1. The reconstruction of damaged buildings is principally financed by State subsidies within the framework of war damage legislation. Under the latter, the State is responsible for the reimbursement in toto to the war damage victim (with the exception of a very limited reduction - less than 10% on average - for dilapidation) of the cost of constructing a building identical with the old one or the repair of the latter. Payment is made only as the rebuilding progresses. In certain cases, and for large-scale damage, the claimant receives only up to 70 per cent, the remainder being paid to him later.

Since the middle of 1949, it has been possible, in the case of certain types of damage, for the State to discharge itself of its liabilities by giving, in lieu of immediate settlement, bonds redeemable in three, six or nine years. These are not, at present, negotiable but are redeemable, block by block, by a semi-governmental body at the end of one, three and five years. As far as dwellings are concerned, settlement by means of bonds accounts, so far, for less than 5 per cent of total settlements.

Accordingly, war damage victims, either because they have rebuilt before the State has settled the whole of its debt to them in cash or because they have invested additional funds in the buildings undertaken, have sometimes been led to find their own means of financing. As far as dwelling construction is concerned, the relative importance of investments made by war damage victims either in anticipation of payment by the State or on a permanent basis does not appear to be very great. Their volume cannot, however, be determined by any form of enquiry.

2. The financing of "moderate rental" housing benefits:

- individuals wishing to build a house, complying with certain technical conditions and not exceeding a certain price, to accommodate themselves. Such persons can obtain loans on mortgage at reduced rates of interest (2.75 per cent) from specialized non-profit making companies known as Building Loan Societies (Sociétés de crédit immobilier);

- public departments or private non-profit making companies under State supervision (Sociétés d'habitations à bon marché), who build dwellings chiefly for ordinary leasing, but sometimes however for leasing on a rent plus participation basis (Co-operatives), or for purchase through the rent.

Of the two million new dwellings erected between the two wars, from 300,000 to 350,000 were built within the framework of the cheap housing legislation. Of this number, a little more than half were put up by private persons who had taken out loans with building loan societies.<sup>(1)</sup> The moderate rental housing programme practically came to a stop between 1939 and 1948 but was resumed three years ago and is steadily developing. While the payments made are still relatively small, the number of contracts accepted and of dwellings commenced, or the plans of which have been approved, is much greater.

The financing of moderate rental housing is principally effected by means of loans at low interest made by the Treasury to Building Loan Societies or other bodies. Such loans may cover 80 per cent of expenditure in the case of building by private individuals with the assistance of a loan from building loan societies, or may cover from 75 to 90 per cent<sup>(2)</sup> in the case of building carried out directly by public departments or H.B.M. companies. Up to 1947, such loans were made at 2 per cent and were redeemable, in the first case, in 25 to 30 years and, in the second, in 40 years.

Owing to the fact that building concerns found it impossible to balance their operating accounts if only reasonable rentals were charged for new dwellings, a law passed in 1947 provided provisional new financing facilities in such cases (interest not due for the first two years, and reduced to 1 per cent for the following eight years, extension of the redemption period to 65 years). In 1950, similar interest reductions were introduced for building loan society loans.

---

(1) See Chapter IX for further information as to these societies' operating methods

(2) 90% provided a local authority guarantees settlement

The rest of the funds required for building carried out by private individuals are supplied by the personal contribution of those concerned or by ordinary loan enjoying none of the special facilities given by the State. Such loans can be only on second mortgage as the Building Loan Societies hold a first mortgage to guarantee repayment of the sum advanced by them.

The rest of the funds required for buildings put up by H.L.M. bodies are derived from various sources (subsidies or loans made by local authorities, by social welfare bodies or by industrialists concerned with housing their employees etc.); the amount put up by the H.L.M. body itself is generally small. On the other hand, the funds required are practically never obtained on the capital market or by long-term borrowing from credit institutions. It is also to be noted that the Treasury holds a first mortgage on buildings as a guarantee for the loan it makes. When the extra money required is obtained by borrowing, contributions towards interest may be made by the State (at present, up to a limit of  $4\frac{1}{2}\%$  for the first ten years and  $3\frac{1}{2}\%$  thereafter).

3. Up to the end of 1950 the financing of other dwellings was done principally out of the resources of the owners directing the scheme or by loans as between individuals and very little resort is made to credit institutions making a practice of granting loans on property. The latter form of assistance does not, in fact, seem to have amounted to 5% of the total volume of new investment.

In this sector a distinction should be made between:

(a) Building carried out directly by the State or by local authorities. This has been financed from the general funds of the State or such authorities. In any case, it accounts for hardly 2 - 3% of the new dwellings in this sector;

(b) Buildings erected by nationalized undertakings (coal mines, electricity, railways). The funds for these have been provided within the general equipment budgets of these industries, either from their own financial resources or by borrowing. At times, the State has lent assistance as part of the general aid which it has been found necessary to give such companies in order to enable them to reconstitute and develop their equipment. Constructions of this type account for at least one-fifth of the new dwellings in this sector;

(c) Private building. Such building has mainly been financed either by industrial undertakings, when erecting buildings to accommodate their staff, or through private investment by owners running their own schemes or through loans as between individuals, probably often between members of the same family. As a result of the measures taken to encourage it, this form of building is on the increase.

For deferred upkeep and repair work, aid from the authorities has been given through the medium of the "Fond national d'amélioration de l'habitat", a semi-state undertaking under Crédit Foncier management, whose resources are mainly derived from a levy on the rents for old houses and assistance which may take the form either of a subsidy amounting on an average to just under 30% of the total cost of the work, or of a contribution towards interest and a guarantee for the loans contracted for the remaining sum with the "Sous-comptoir des Entrepreneurs". The number of subsidies granted from the time the fund was set up after the Liberation amounts, it appears, to  $\frac{1}{2}\%$  - 1% of rented buildings and, in Paris and its suburbs, to 8 or 10%.

As far as new private buildings is concerned, until 1950 there was no direct aid from the public authorities<sup>(1)</sup>; a law passed on 21 July 1950 offered a building bounty amounting on average to a subsidy of 30 - 50,000 francs per annum for each dwelling for a period of twenty years. The total amount of bounties which can be granted each year is fixed by the law on the Budget. At the same time, a system of State guarantees has also been set up under which the amount of loans which may be granted to individuals by the Crédit Foncier may be as high as 60% of the construction cost.

---

(1) A law passed on 21 November 1940, however, provided subsidies for rural housing to a limit of 25% of the total cost of the work and with a ceiling of 25,000 francs per agricultural property; owing to currency devaluations, this second ceiling reduced the assistance to insignificant proportions, and the law had fallen into neglect. The ceiling was raised in 1950 and an appropriation of 2,000 million francs was included in the Budget to meet any claims.



## II. Financing from own resources

The extent to which expenditure on housing (repairs and new constructions) is financed from the owner's own resources seems to be very small in the reconstruction sector and in that of cheap housing, where practically the only persons concerned are those who have contracted loans with Building Loan Societies. On the other hand, it most certainly plays a very important, if not the most important, part in the financing of buildings in the third sector; unfortunately it seems impossible to determine even approximately the volume of such financing and to distinguish it from loans as between individuals.

By reason of the relatively low level of rentals in relation to the cost of building, it would not appear that such funds are being invested in new buildings for leasing (with the exception perhaps, for a time, of certain buildings erected in tourist areas and intended wholly or partly for seasonal letting). Such investments have largely been made by persons wishing to accommodate themselves, by industries concerned with housing their employees or by rural proprietors for the needs of their farms. In these various cases, the question whether the building would pay its way was a secondary consideration.

These investments seem generally to have taken the form of direct building and not of contribution to a Building Society. However, a legal formula already applied before the war in certain cities, i.e. corporate ownership of buildings by apartment holders, is tending to develop either within the reconstruction framework or outside it. Under this system, which is applicable to houses divided into several apartments, each of the participants is the individual owner of one or more apartments and a joint owner of the land on which the house stands and of the common parts thereof. The relation between these joint owners is regulated by law. This formula is used not only in the case of blocks of flats to be erected but even for already existing buildings; sales of individual apartments, old or new, have developed since the war.

On the whole, financing from own resources seems to have been a by no means negligible source of capital in recent years. It has been encouraged by the housing crisis itself and by the fact that the payment of cash balances and key money is demanded by the tenants of old houses before they will make way for new occupants.

Financing from own resources also seems to be on the increase as a means of providing funds for the upkeep and restoration of existing houses. This trend, which is still in a rather undeveloped stage, has been made possible by the rise in farm rents and subsequently in house rents.

The State has encouraged financing from own resources by introducing building bounties and by offering tax relief (to industrialists helping to house their workpeople, to companies setting up with a view to building houses for joint ownership and in connexion with certain transfers of property providing the establishment of small holdings).

This type of investment, however, is still hampered to a large extent by the clumsiness of the real estate system and the costs it involves, the market value of buildings being thereby affected.

### III. Loans for housing

There were in France, before the war, a number of public or private financial institutions which made a regular practice of loaning money on property (the Treasury, the Caisse des dépôts et consignations, the Crédit foncier de France, insurance companies, specialized banks etc.), but the great majority of loans took the form of transactions between private persons generally concluded before a notary. However, the rates of interest of the large financial institutions, the Crédit foncier in particular, had a great influence on those for private loans.

Since the Liberation, the tendency has been for the number and size of loans effected by the large financial institutions to decline still further, except as regards cheap housing H.B.M., and, although there are no statistics bearing on the matter, loans concluded before a notary do not appear to have assumed the same relative volume as before the war. Nevertheless, the number of loans between private individuals is probably still quite considerable, although it is not possible to specify either the total amount involved or the form such loans usually take. It would appear that they very often consist of unregistered contracts for fairly short terms or unspecified periods.

The volume of loans contracted with the chief specialized financial institutions over the last two years is given in the following table (in thousand millions):

	1948	1949	1950
Treasury (for H.B.M.) <sup>a)</sup>	1.1	9.9	21
<u>Crédit foncier de France</u> <sup>b)</sup>	4	4.7	9
Misc. (insurance companies, and other institutions making loans on property)	less than 1	less than 1	approx. 1
Total	less than 6	less than 16	less than 32

a) Including loans by the Treasury to Building Loan Societies. The sum of the loan contracts concluded is considerably higher than is shown by the above figures, which refer to the sums actually paid out. The total loans amounted to approximately 4 thousand million for 1948, 22 thousand million for 1949, and will probably reach a figure of between 40 and 45 thousand million in 1950.

b) Including loans made by its branch the Sous-comptoir des entrepreneurs.

At the end of 1950 these loans probably amounted, in all, to less than 10 per cent of the money invested in housing, exclusive of reconstruction, and less than 5 per cent if cheap housing is left out of account. The overall proportion will probably be higher in the coming years, mainly as a result of the expansion of the cheap housing programme, and also of Crédit foncier loans.

Almost the whole amount of these loans derives from the Treasury (either directly or through the Building Loan Societies), or from the Crédit foncier. Again, for its cheap housing programme, the Treasury draws on the Caisse des dépôts et consignations, a public body responsible for centralizing and managing the funds of a number of superannuation and social assurance funds, and Savings Bank deposits. Owing to the impossibility of making public bond issues, the Crédit foncier has, since 1948, had, at times, to have recourse to the same institution.

However, the total amount paid out by the Caisse des dépôts et consignations for direct or indirect housing loans did not amount to more than 5 per cent in 1948 and 10 per cent in 1949 and 1950 of the sums deposited with this institution by the Savings Banks. This proportion has probably increased in 1951 by virtue of the new cheap housing construction, in progress or authorized.

Again, the Crédit Foncier is increasingly lending money to private individuals. Though the volume of the loans made by the large specialized financial institutions may be small, except in regard to cheap housing, the influence exerted by their interest rates, and, more generally, by their loan costs, including the various charges and commissions, is still very great. These rates, and those of the Crédit foncier in particular, still appear, to some extent, to set the standard for loans between private individuals. Until 1950 these rates, except as regards cheap housing, were higher than the yield from government rentes, bonds quoted on the stock exchange and even new issues.

However, the real cost of loans under mortgage, whether contracted with specialized financial institutions, or not, is, in fact, higher than appears at first sight. In practice, the formalities required for the conclusion of a loan contract combined with a mortgage, involve charges generally around 10 per cent, and rarely less than 5 per cent, of the amount of the loan. They are higher in the case of loans from Building Loan Societies (H.B.M.) which require the borrower to take out a life insurance policy.

As an example, the following are the actual rates of interest at present payable in certain cases on a loan of a million from Building Loan Societies or the Crédit foncier.

	Redemption period	Nominal rate of interest %	Charges	Real rate of interest %
Building Loan Societies	30 years	2.75	200,000	4.5
<u>Crédit foncier de</u>	20 years	6.80 <sup>a)</sup>	100,000	8.5
<u>France</u>	30 years	6.80 <sup>a)</sup>	100,000	7.5

a) New rates in force since September 1950

The high rates of interest on mortgage loans and the tightness of the capital market have, in the last few months, led the public authorities to adopt certain measures.

The Building Loan Societies have reduced their rates of interest over the first ten years.

The Crédit foncier has reduced the rate of interest on long-term loans from 7.90 to 6.80%.

When a request is made by a person in receipt of a building bounty, the Crédit foncier or its branch, the Sous-comptoir des entrepreneurs, may grant a medium-term loan for five years at a rate of interest not exceeding 4.80 per cent, where no provision is made for the consolidation of the first loan by another for from ten to thirty years, and 5.40 per cent in other cases. The rate of interest on consolidated loans is 6.80 per cent. The proportion of the loan to the construction cost may amount to as much as 60 per cent.

The new medium term loans, such as credits opened with the Sous-comptoir des entrepreneurs may give rise to the issue of bills discountable by the Bank of France. The system is somewhat similar to that of the "Arbeitswechsel" (discountable "work creation" bills issued by the Government) instituted in Germany between the two wars.

#### IV. State aid

State aid for housing has been restricted during the last few years for three main reasons:

- a tradition of giving as much scope as possible to private enterprise;
- the limited funds available for housing, as a result of other State commitments;
- the full liability assumed by law for reconstruction expenditure of all sorts.

The aid provided relates essentially to the repair and reconstruction of war damaged buildings. The breakdown of such expenditure (loans and subsidies) for 1949 and 1950 (in thousand millions)<sup>(1)</sup> is approximately as follows:

	1949	1950 estimated
Reconstruction (subsidies or Government building). <sup>a)</sup> ....	110	120
Cheap housing (loans) .....	10 <sup>b)</sup>	21
Miscellaneous (subsidies or Government building, loans).	2	4
	122	145

a) Not including temporary buildings and installations, or payment in the form of bonds, but including expenditure for rural housing

b) By difference

out of a total budget (ordinary and capital investment budget) of approximately 1,800 thousand millions in 1949 and 2,000 thousand millions in 1950.

The above, however, only gives an incomplete idea of the extent of State aid. The State has in fact undertaken a large number of commitments involving expenditure over future years.

To arrive at a correct appreciation of the total assistance provided by the authorities, the aid given must be considered separately under the following five heads:

- Capital subsidies;
- Subsidies spread over a number of years;
- Loans;
- Guarantees of other loans;
- Housing allowances; (not dealt with in this report, but, nevertheless, of very considerable importance).

(1) Only expenditure which can definitely be identified as being for housing has been included; but, as stated above, it is probable that housing has benefited by certain other expenditure such as the general assistance given to industry or agriculture.

## 1. Capital subsidies

Under this head are to be included, on the one hand cash payments to victims of war damage and, on the other rural housing subsidies or those provided by the Fonds National d'amélioration de l'habitat. Building carried out by the State itself in the form of government quarters must also be taken into account, but this last category is tending to be of diminishing importance.

Probable expenditure under the above heads for 1950 is as follows:

Reconstruction . . . . .	120,000 million
Rural housing . . . . .	1,000 million
Fonds d'amélioration de l'habitat. . . . .	1,500 million
Government quarters. . . . .	under 1,000 million

## 2. Subsidies spread over a number of years

The number of these is considerable and State aid in this form is to be found in all three financing sectors. Actually, owing to the difficulty which the State is nowadays experiencing in balancing its budget, there has been a tendency to defer some payments to subsequent financial years.

Under the heading of reconstruction must be included payment by means of bonds carrying interest and redeemable in 3, 6 or 9 years, which do not call for any immediate outlay. It would appear that by the end of 1950 about 10 thousand million worth of bonds of this sort will have been issued for housing purposes, approximately 50 per cent in 1950.

Moreover, the State assumes responsibility for the difference in rate of interest between the loans it makes to cheap housing bodies and those it contracts with the Caisse des dépôts to obtain the necessary funds. At the present time this margin varies between 3 and 5 per cent, according to the extent of the reduction made<sup>(1)</sup>. The State, also, makes a contribution (at present not more than 4.5 per cent) towards the interest payable on loans contracted by the above bodies outside the Treasury.

---

(1) Similar contributions are made as regards loans granted by the Caisses de crédit agricoles. Very little of the money so raised has, however, been expended on housing

But, since the end of 1950, in particular, the State has been empowered to pay bounties for the building of new dwellings. These are paid annually over 20 years and, at the present time, amount to 500 francs per habitable square metre, up to a limit of 110 square metres per dwelling. They are only payable to private individuals; industrial undertakings building dwellings for their own workmen, which remain their property, are not eligible for these bounties. The bounties granted in 1950 should not entail an annual expenditure of more than 3 thousand millions in future years, which roughly represents the construction of 75,000 dwellings.

Finally, apart from the capital subsidies it grants, the Fonds d'amélioration de l'habitat may make contributions towards the interest ( $3\frac{1}{2}\%$  at the present time) on three year supplementary loans contracted by owners with the Sous-comptoir des entrepreneurs.

### 3. Loans

This category chiefly comprises loans made by the Treasury to cheap housing bodies. The total amount paid out in respect of such loans will amount to approximately 31 thousand millions up to the end of 1950, of which 21 thousand millions are attributable to 1950. But commitments<sup>(1)</sup> entered into over the same period will amount to 98 thousand millions. Very considerable sums will therefore have to be paid out in future years, proportionately to the progress made in construction, even if this policy is not proceeded with.

It should also be remembered that the Treasury or other public institutions such as the Caisse des dépôts have, owing to the tightness of the capital market, had to make loans, either to industrial concerns, whether nationalized or not, for purposes of re-equipment - loans which may in part have been used for the construction of workers' dwellings - or to the Crédit foncier de France.

---

(1) Loan contracts concluded or authorized



#### 4. Guarantees for other loans

Apart from the guarantees given by local authorities for loans contracted by cheap housing bodies with the Treasury (actually these are dealings between public bodies), the authorities have been led to guarantee loans from other sources.

For some years now, the Fonds National de l'amélioration de l'habitat has been guaranteeing the repayment of loans from the Sous-comptoir des entrepreneurs, in the case of which it makes a contribution towards interest payments, thus making it unnecessary for the Sous-comptoir to take out mortgages.

Again, since 1950 the State has had power to guarantee that part of loans contracted with the Crédit foncier by private individuals for purposes of new construction, which is in excess of this institution's statutory limitations (50% of the market value of new buildings) up to 60% of the total cost of construction, when the builder is also in receipt of a State bounty.

#### 5. Housing Allowances

A system of "housing allowances" for families with at least two children has been in force since 1949. These allowances are payable to families whose dwellings meet certain conditions as regards habitability and occupation, and who pay out a reasonable proportion of their income in rent. The scale of allowances which is fairly complicated, takes account both of the number of children and the rent paid; the rate is much higher when the family lives in a new house. In the case of large families, suitably housed, the allowance is, in fact, sufficient to cover a considerable proportion of the rent. Like family allowances, they are paid directly to the beneficiaries, but there are legal provisions to ensure that they are not diverted from their true purpose and are actually used for the payment of rent.

## CONCLUSIONS

1. From the Liberation until the present time, over half the money needed for financing housing has come from the State (subsidies or loans). As regards the rest, the part played by the financial institutions which used to make a regular practice of making long-term investments in real estate (Crédit foncier, insurance companies etc.) is very small but shows signs of increasing. Financing has, in fact, been carried out, either by industrial concerns (nationalized or otherwise) out of their general capital resources<sup>(1)</sup> or by private individuals. Actually, the total of less than 1,000 thousand millions at present-day value invested in housing since the end of hostilities (repairs and new construction) can be split up roughly among the various financing sources as follows:-

Funds supplied by the State:

subsidies or own building ..... from 55 to 65 per cent of the total  
loans ..... from 4 to 5 per cent of the total

Financial institutions making

long-term loans ..... from 2 to 3 per cent of the total

Other sources (industrial concerns,  
nationalized or otherwise, and

private individuals) ..... from 30 to 40 per cent of the total

Issues on the open market for housing purposes have been, to all intents and purposes, non-existent.

2. This situation is, however, characteristic of a period when, for the reason indicated at the beginning of this monograph, public opinion was not greatly exercised by the housing problem. New buildings, in particular, were comparatively rare; all the more so since the State had been induced to accept liability for practically the whole cost of State-aided building (reconstruction, cheap housing).

---

(1) To which the State may have contributed, although it is impossible to determine the proportion of State aid expended for the benefit of housing

It was not until 1947/48, and still more since 1950, that any significant measures were adopted to encourage housing (law of 1947 on cheap housing, the increase from year to year both of the sums voted for housing in connexion with reconstruction and of loans for cheap housing, rent increases, bounties for private building, fiscal concessions etc.). These measures have resulted in a considerable increase in new building.

3. Taken as a whole, these new measures are dual in character:

In the first place, efforts have been made to reduce the existing unbalance between housing costs and returns: pressure to reduce building costs; the increase by stages of the rents of old houses; the provision of family housing allowances; bounties to private builders; reduction to 0 and 1 per cent, over the first few years, in the interest payable by cheap housing bodies on their loans from the Treasury; reduction in the interest rates payable to the Crédit foncier (4.80 and 5.40 for medium-term and 6.80 per cent for long-term loans).

A tendency to spread over future years the payment of part of the expenditure, which might prove an excessive burden if liquidated in full at the present time. There are four aspects to this tendency:

In regard to the form of State aid there is the transformation of immediate capital outlay into deferred or annual payments (payment by means of reconstruction bonds, payment of building bounties, in annual instalments, wider use of various systems of contributions towards interest etc.).

As regards obtaining a balance between receipts and expenditure in housing accounts, rates of interest are lower for the first few years, and enable such a balance or something approaching it to be achieved, but become higher after a few years. Thus, for cheap housing bodies, rates over the first ten years do not exceed 2 per cent, while, as regards new loans to private individuals by the Crédit foncier, the first medium-term loan for 5 years only carries interest at the rate of 5.40 per cent but interest on the consolidation loan amounts to 6.80 per cent.

As to the size of loans: the guarantee given by the State or a public body to induce the Crédit Foncier to increase the amounts of its loans.

Finally, owing to the inadequacy of the State's own resources and those of the capital market, recourse has had to be had to the money market; State payments over and above 500,000 francs are made in the form of bills rediscountable at three, six or twelve months. The medium-term loans granted by the Crédit Foncier take the form of bills rediscountable by the Bank of France.

Chapter XVIII

I T A L Y

In order to understand Italian housing policy, it is first of all necessary to set it against the background of the country's economic situation. Two factors play a decisive part in that connection: the scarcity of capital available on the market, with the consequent high rates of interest, and the difficulty experienced by the State in procuring the financial resources needed to balance its budget.

Housing policy has therefore been primarily directed towards giving all possible encouragement to the investment of private capital in housing (investment of his own capital by the owner, loans between private individuals). Tax relief in various forms and the absence of rent control in the case of new houses are two of its features. Another aspect of this policy is that, until quite recently, State aid mainly took the form of subsidies paid by annual instalments over a long period, and not of the supply of capital (in the form of loans, capital subsidies or direct building) at the time the houses were built.

The second aim of this policy, whether public or private, is to enable as many families as possible to own their own dwellings.

A third characteristic is that State aid is, in the main, confined to the most under-privileged classes. The choice of the occupants for dwellings built with its assistance is, in general, very closely controlled and, except for a few cases to which reference will be made below, the public authorities do not consider that any action is called for on their part to promote the better housing of the majority of the population; they only concern themselves with the poorest classes. There are, however, special regulations for the partial compensation of the owners of war damaged property which apply to all concerned, irrespective of their financial position.

Finally, it should be remembered that the housing situation in Italy presents certain special features not to be found in other countries.

While the existing houses are often inadequately fitted up and sometimes dilapidated, they are, due largely to the material used (stone), for the most part strongly built and well insulated, which is not always the case elsewhere.

Again, for climatic reasons, the same extreme importance is not attached to housing conditions as in cold and rainy countries, and the population, rightly or wrongly, is more concerned with other matters, particularly, in a country where unemployment is rife, the problem of its daily bread.

The increase in the population has, however, in itself led to a most acute housing crisis in some towns, forcing the government to take action.

### Building Categories

#### A. Private building

The first building category which has to be considered is that by private enterprise. Until the "I.N.A. Casas" scheme was started in 1950, private building probably represented the major part of all building activity. Even today it is still of considerable importance.

Private building is carried out, either by the owners to meet their own housing needs, or for letting purposes; the latter type is somewhat unusual. There were, however, during the first post-war years, and there are probably still today, instances of new buildings financed jointly by the landlord and the prospective tenant. The latter might provide say one-fifth, one-quarter or one-third of the necessary capital in return for a long lease and a reduced rental over the first few years, while the balance would be supplied by the owner from his own resources or in the form of a loan from a credit institution. That is only one example; the conditions of such arrangements vary considerably.

Finally, building is often carried out by Building Societies with a view to immediate sale, sometimes even at the blue print stage.

The development of flat ownership in blocks of flats under which the parties are the individual owners of their own dwellings and co-owners of those parts of the building used in common, has encouraged this type of building.

Private building in its various forms does not receive State aid, except in the case of the rebuilding of property destroyed in the war, or of low-cost building by the prospective occupier under State supervision. Special mention should be made in connexion with private building, of dwellings built by industrial undertakings for the housing of their workers. Apart from building now carried out under the auspices of "Low-Cost Housing Societies", established by the law of 2 July 1949,<sup>(1)</sup> industrial undertakings do not receive any financial assistance from the State. Even without such assistance, however, the extent of their building activities has been considerable; approximately 39,000 dwellings have been built by them since the war. Generally speaking, rents are low, to bring them into line with the salaries and wages of the occupiers. Such building may therefore be considered as being carried out by non-profit-making bodies, as any losses are carried by the industrial undertakings concerned.

#### B. Building by Private or Semi-public Non-profit-making bodies

State-aided co-operative building societies have existed in Italy for many years, but they are not of great importance nowadays, and, it is in fact doubtful whether they ever were.

Associations set up under the Fanfani Plan, on the other hand, probably constitute the most important factor in present-day housing.

##### Co-operatives are of two kinds:

1. Owners' co-operatives, whose members buy their dwellings on the instalment plan over 35 years; outstanding instalments can, moreover, be paid off at an earlier date. These co-operatives are composed exclusively of individuals belonging to certain categories of the population, such as Government employees or pensioners, (active or retired civil servants, persons in receipt of war disability pensions, etc.)
2. Tenants' co-operatives, where ownership of the dwellings remains with the Society and, in case of its dissolution, is transferred to one of the "Provincial Institutions for Building Working Class Dwellings". The essential condition for membership of these co-operatives is residence in the commune.

---

(1) See below for information regarding building by non-profit-making organizations.

The financing of building is mainly effected by means of loans from the Deposit and Loan Fund. The co-operatives, moreover, enjoy the same advantages as the "Provincial Institutions for Building Working-Class Dwellings".

The Law of 2 July 1949 also provides for the establishment of another form of non-profit-making organization the "Low Cost Housing Societies". These Societies can assume various legal forms (institutions, associations or societies). The features they have in common are that they are non-profit making, have for their purpose the building of low-cost dwellings and do not retain ownership of the houses, but sell them to the occupiers by annual instalments. Like the "Provincial Institutions for Building Working Class Dwellings" these Societies are in receipt of a State subsidy amounting to 4% per annum per dwelling, paid over 35 years, but they cannot borrow money at low rates from the Deposit and Loan Fund, as the former are able to do. They are, in fact, established by industrial and commercial undertakings for the purpose of housing their employees and work people. These undertakings themselves supply a considerable proportion of the necessary funds. A central organization to co-ordinate the activities of these Societies has been set up in Rome.

Also in 1949, the Government introduced the so-called "Fanfani Plan", called after the author, which included a financing programme for building approximately 200,000 working class dwellings over a period of seven years. This plan is designed both to raise the workers' standard of living and to promote the revival of the building industry.

The actual building work is in the hands of a new semi-public Institution, called the "I.N.A. Casas" and is directed by an administrative board composed of Government workers' and employers' representatives. Its annual programme is submitted to the Minister of Labour for approval, and its management is in the hands of a special department of the National Insurance Institute a private body under State control (an arrangement which avoids the necessity of setting up a new organization and makes use of the services of what appeared to be a particularly competent body). The choice of the occupiers is in the hands of the Provincial Committees, comprising representatives of the local authorities, employers, workers, and I.N.A. Casas. These committees have been instructed to give priority to homeless, and after that, to the worst-housed workers.



When finished the buildings are sold to their occupiers against payment by annual instalments, or are let. In the latter case they remain at the moment the property of the "I.N.A. Casas", but it is probable that they will at a later date be handed over to the "Provincial Institutions for Building Low-Cost Dwellings" to manage.

The plan is financed by:

- (a) funds provided by the State; 15,000,000,000 lire per annum for a period of 7 years starting with the 1948-1949 budget which, in the case of the first four budgets, will be taken from the E.R.P. lire Counter-part Funds.
- (b) compulsory employers' and workers' contributions equivalent to 1.80% of wages (representing an annual amount of 20,000,000,000 lire per annum for a period of 7 years, as from 1 April 1949, of which two-thirds is contributed by the employer and one-third by the worker);
- (c) monthly payments by tenants towards the purchase price of their dwellings;
- (d) the net profits from the rentals of leased dwellings.

The programme for the first year has been financed by appropriations in two budgets (1 April 1949-31 March 1951) and the second year's programme will be financed by an appropriation in the budget for the period 1 April 1951 to 31 March 1952.

In addition, part of the total sum required for the two programmes (11,941,000,000 lire) will be provided by sums advanced by institutions (Low-Cost Housing Societies) authorized to build houses for industrial employees and work people; they will be able to recover these advances out of the contributions payable as from 31 March 1952.

#### C. Building by the Public Authorities

As is the case in all other countries, the Italian State does not normally itself undertake building operations, but it has been forced to do so in a number

of localities, in order to provide accommodation for homeless persons. Such building was carried out on a very large scale during the first post-war years; it comprised approximately 20,000 dwellings in 1948. It has tended to decline, but even so nearly 10,000 dwellings were built in 1950. The buildings are erected by the Ministry of Public Works and managed by the Provincial Institutions for building Working-class Dwellings, or by the communes. Rents are 1.5% of building costs of which one-third (0.5%), representing the amortization quota, goes to the State while the remaining 1% is collected by the association or the commune to meet the cost of administration, upkeep, etc. One of the features of the financing of this type of building, which is borne exclusively by the State, is that the work is not paid for cash down but by thirty annual payments, covering capital and interest. The contractors are, therefore, obliged to discount these credits, which they seem to have been able to do without much difficulty.

The local authorities, both provincial and communal, are empowered to build working class dwellings under the same conditions and with the same assistance from the State as the "autonomous Provincial Institutions for Building Working Class Dwellings". They have not, in actual fact, done much in that line and have, in the main, confined themselves to building dwellings for their employees.

Even before the war the "Autonomous Provincial Institutions for Building Working Class Dwellings" were building cheap houses for the poorest classes of the community.

They are set up for each province under an order by the Head of the State to operate in all the communes of a province where cheap houses are needed. In some cases a provincial institution may set up special sections in certain communes.

The institutions function on an autonomous basis. Their articles of association lay down the number of members of the board of administration, there must be at least five; the number of executive officers; the methods of appointment and, a highly important point, the professions or occupations from which they must be drawn. The Government appoints the chairman and sometimes also the vice-chairman.

Before the war, these institutions were remarkably active and had built a large number of houses. A number of their houses suffered war damage, while work was stopped on many others, on which building had

started. After the war their efforts were, in the first place, directed towards the repair of damaged houses and the completion of buildings on which work had been started. They now again play a fairly important part in the building of new low-cost houses. At a rough figure, they have built approximately 150,000 dwellings.

In principle, these Institutions build to let, but the dwellings may be sold to their occupiers (provided that they do not possess any other accommodation) against annual payments, transfer of the property taking place when the payments have been completed.

During the first post-war period, the funds required for their work were advanced by the State. One half of these advances will have to be repaid by the Institutions over a 30-year period, the rest being treated as a Government grant-in-aid. This method of financing - too costly for the Government budget - has been abandoned and since 1949 recourse has again been had to normal financing methods: loans from the Deposit and Loan Fund, mortgage banks and other credit institutions. The Treasury assumes responsibility for part of the annual interest and amortization quota in respect of these loans.<sup>(1)</sup>

Besides these "Provincial Institutions for Building Working Class Dwellings" there is also the "National Institution for building houses for State Employees" (I.N.G.I.S.), a public body under State control. It functions in much the same way as the "Provincial Institutions for Building Working Class Dwellings", but its activities extend to the whole of the country and, in addition to working class dwellings, it is authorized to build houses of a somewhat superior - the so-called "economic" - type. At present, it mainly builds dwellings of the first type.

Finally, though its activities have now ceased, mention should be made of the work done by the first UNRRA-Casas Committee, an off-shoot of the Italian Government's former Liaison Organization with UNRRA. Between 1946 and 1949 this Committee built approximately 4,000 dwellings which have been given to the poorest of homeless persons. After a trial period, occupants who have proved to be

---

(1) See below "Financial Assistance from the Government".

satisfactory tenants may acquire the ownership of these dwellings on terms arranged to suit their means. The first UNRRA-Casas Committee also made advances to war victims for the repair and reconstruction of their houses and distributed relief in kind (furniture, clothing, etc.).

#### Various forms of credit

As has already been pointed out, State-aid and even payment for its own building, often takes the form of annual instalments, generally over long periods.

One of the main problems of the owner builder or contractor is, therefore, to lay his hands on ready money, that is to say to find a way of discounting the State's credits where these have been granted. That difficulty is often solved by dividing the financing into two parts. The contractor agrees to accept payment, partly in cash, and partly in the form of interest-bearing bills, falling due on various dates, and discounted by the banks. Sometimes societies, building to sell, take that risk for their own account and pay the contractor the full amount owing to him in cash. In the case of private building, part of the necessary capital is put up in cash, the balance being provided by a long-term mortgage loan.

This difficulty, to which must be added the inadequacy of real estate loans in relation to building costs, the complexity of the formalities required to obtain the loans, and the high rate of interest payable, is the main reason why private building is exclusively confined to the erection of houses for the owner to occupy or for sale to the prospective occupier at the blue-print stage or immediately on completion. Owing to their urgent need for housing accommodation the occupiers are prepared, wherever possible, to put up a substantial part of the necessary capital themselves.

For the purposes of additional credit, public bodies can have recourse to the Deposit and Loan Fund, and the Low-Cost Housing Societies to their industrial founders. The INA-Casas is the only institution to finance its activities almost exclusively from its own resources.

As in many other countries, the terms of loans raised during the course of building, particularly those for short periods, are, however, in general, more onerous than those for long-term mortgage loans (from 10 to 14%).

At the present time, the principal credit institutions interested in building activities are the mortgage banks and the Deposit and Loan Fund. As regards reconstruction, mention should also be made of the two UNRRA - Casas Committees. In addition, the National Social Security Fund, the National Insurance Organization, the National Workers' Compensation Fund and the various savings banks grant, within certain limits, loans on mortgage. Second mortgage loans are practically non-existent.

#### A. Mortgage Banks

There is a National Mortgage Bank and there are also financial institutions authorized to make loans on mortgage.

These institutions obtain their funds by the issue of mortgage bonds bearing interest at 5%, except in the case of issues made by the National Mortgage Bank, which yield  $3\frac{1}{2}\%$  per annum. These bonds are not issued directly to the public by the financing house concerned, but are handed over to the borrower at their face value; he is then, himself, responsible for putting them on the market. They are quoted on the stock exchange, but almost invariably at a discount which, at the present time, amounts to from 12-15% in the case of 5% bonds, and 30% for  $3\frac{1}{2}\%$  bonds.

As regards mortgage banks, the total cost of loans for 25 or 30 years, which is the normal period, is from 9 - 10%, a rate which takes into account the current market quotation of the bonds, the bank's commission payable for the whole duration of the loan up to redemption, as well as taxes, interest and amortization charges.

The loans are secured by first mortgages, but subsidiary collateral is often required. Loans do not in general amount to more than from 30- 40% of building costs.

In short, the activities of the mortgage banks are still extensive. Their loans totalled 25,000 million lire in 1950, of which at least two-thirds were invested in new building and reconstruction.

#### B. Building Trade Development Fund

To facilitate mortgage credit and to overcome some obstacles to its wider utilization in the erection of dwellings, the law of 10 August 1950 empowers the

Treasury to purchase at their face value, from a special fund bonds issued by the mortgage banks to offset certain kinds of loans. As a result, the borrower, instead of obtaining his loan in the form of bonds which he is obliged to sell on the market at a loss, receives the whole sum in cash. The rate of interest on these loans has been reduced to 4%. The borrower has therefore the two-fold advantage of a lower rate of interest, combined with the elimination of the loss represented by the difference between the face and the market value of the bonds.

Loans may only be made to persons who propose, either as individuals, or as members of co-operatives or associations, to build low-cost dwellings for their own use. The leasing of flats and the transfer of ownership by the first owner are prohibited for the first five years after completion of the building. A borrower under this scheme is precluded from receiving any government housing subsidy. Moreover, he may not borrow under this scheme if he possesses another dwelling sufficient for the needs of his family. Dwellings which have been financed under this scheme must conform to certain provisions.

Loans must be repaid by the end of the 35 year period, but the borrower may redeem them at an earlier date. They may not amount to more than 75% of the building cost approved by the Public Works Offices and the builder must raise the balance of his expenditure out of his own funds. The mortgage bank cannot grant the loan until he has actually paid his share of the building costs, for the acquisition of the site or for initial expenditure on work or supplies.

This scheme, which is at present in its experimental stage, is appreciated by private builders, and applications for loans are extremely numerous.

The budget for the financial year 1950-1951 included an appropriation of 10,000 million lire for these mortgage loans, which had to be allocated to the different areas according to their housing needs. The Government hopes to be able to provide new appropriations in the 1951-1952 and subsequent budgets and to raise them within a few years to a total of 100,000 million lire.

### C. Deposit and Loan Fund

Communes which are themselves engaged on cheap housing schemes, the Provincial Working Class Dwellings Institutions, the National Institution for Building Houses

for State Employees, other public bodies and the co-operative building societies building houses for their personnel or their members, as well as less important public bodies, may obtain building loans on mortgage from the Deposit and Loan Fund.

To secure such loans these organizations must first have obtained from the Ministry of Public Works a subsidy payable by annual instalments. The amount of the loan may cover the entire building costs approved by the Ministry of Public Works, including the cost of the site. The interest asked by the Fund is 5.8%, all charges included, that is to say a rate that is extremely favourable under present conditions.

Amortization of these loans is spread over a lengthy period, although this period may not, under the regulations now in force, exceed 35 years.

In view of their attractive features, the Fund's loans are in great demand. The following figures show the remarkable extent of its lendings to the various organizations mentioned above:

<u>Year</u>	<u>In millions of lire</u>
1948	9,853
1949	10,665
1950	27,666

Applications for credits to be granted during the current year amount to about 49,000 million lire. Part of these credits have already been opened.

#### D. UNRRA - Casas Committees

As mentioned above the first UNRRA-Casas Committee, apart from its own building activities, made advances to the owners of damaged houses to enable them to proceed with repairs pending receipt of compensation from the State. These advances amounted to more than 3,000 million lire.

More recently, however, a second Committee has been set up under the same name, which is an offshoot of the International Relief Committee. It grants financial aid exclusively to private individuals for the reconstruction of houses damaged or destroyed during the war. At first the necessary funds were supplied

by various international relief organizations but, at present, it is the Deposit and Loan Fund which supplies the money. The Committee works in close collaboration with the Ministry of Public Works, which is the Government department in charge of reconstruction. Interest does not exceed 6.7%, all charges included. Loans granted are almost always equal to 90% of the reconstruction costs approved by the Public Works Offices but borrowers in very straitened circumstances may even obtain the full amount of such costs. Amortization of the loans is spread over a period of 30 years.

These loans are redeemed by the owners, partly by means of war damage compensation payments which they receive from the Government in 30 annual instalments and partly out of their own funds. The loans granted in 1950 alone amounted to approximately 7,000 million lire.

#### Financial Assistance from the Government

Governmental action may take many different forms, but a consistent feature of its policy is that, with the sole exception of the purchase at face value of mortgage bank bonds by the Building Trade Development Fund, it hardly ever takes the form of loans.

The Government's own building activities over the post-war period have involved an expenditure of 75,000 million lire, but this form of housing activity has been largely discontinued.

More novel and very important, nowadays, is the INA-Casas Organization. Although the State does not itself undertake any building operations, this Organization's activities are entirely financed from public funds, derived partly from annual budgetary appropriations (15,000 millions) and, for the rest, mainly from a levy on employers and workers, assessed on the basis of wages, which really amounts to a tax.

#### A. Assistance to Non-Profit-making Institutions

(a) The Autonomous Provincial Institutions for Building Working Class Dwellings, the National Institution for Building Houses for State Employees, the communes and provinces which provide houses for their employees, the co-operative building



societies, non-profit-making corporations or societies which build low-cost dwellings for sale to their occupiers, as well as some other less important public bodies and institutions specified in the law, are entitled to a subsidy from the Ministry of Public Works up to an amount which on an average corresponds to 4% of the building costs of these dwellings, calculated on the basis of the initial cost estimate and checked on completion of the work.

This subsidy is payable in 35 equal annual instalments. When capitalized it corresponds to from 40-50% of building costs. The subsidy is, however, subject to the condition that the house built with its aid shall conform to specifications laid down for the working class type of dwelling and shall not be let to persons who already possess a dwelling of at least three rooms, with offices, in the same commune or to persons who own dwellings built with the help of a Government subsidy or, finally, to persons who must be regarded as well-to-do.

In the case of the working-class type of house, each flat must consist of not less than two and not more than five rooms, without counting offices such as bathroom, kitchen, W.C., box-room and entrance hall opening directly on the landing. It must also be provided with inside piped water and its own W.C., and satisfy all hygienic requirements.

The floor space of such a flat (rooms and offices) must not be less than 65 sq.m. for two rooms with offices, and not more than 110 sq. m. for five rooms with offices. For the purposes of calculating subsidies, all non-essential fixtures or installations are excluded, but in the definition of non-essentials, due account is taken of local conditions. Thus, central heating installations may be provided only in the colder parts of the country, and lifts only in houses with more than four storeys.

The Government subsidies granted to public bodies under this head in respect of building loans already contracted by them amount to 2,000 million lire per annum for 35 years. As to subsidies for houses at present under construction or to be built under programmes in respect of which loans have already been contracted, the Government budget provides for annual payments amounting to approximately 4,000 million lire.

B. Compensation for War Damage

Subsidies payable by 30 annual instalments are granted to owners of house property wishing to rebuild houses destroyed in the course of hostilities. In normal cases they amount to 4% of the reconstruction expenditure as approved by the Public Works Offices.

In communes where more than 75 per cent of the pre-war dwellings were destroyed and in communes subject to special building standards on account of earthquake danger, the annual reconstruction subsidy is 5% of the building costs approved by the Public Works Offices.

It is a condition for the grant of the subsidy that the reconstructed building be at least equal to the destroyed building, both as regards type of construction and dwelling space.

Reconstruction subsidies paid to private individuals up to 31 December 1950 represent an annual outlay of 237,274,080 lire for a period of 30 years. This corresponds to a total capital investment of 7,118,222,370 lire.

Subsidies in the form of a single capital payment are available in communes with fewer than 10,000 inhabitants for the reconstruction of houses destroyed during the war. Capital payment for each flat to be rebuilt amounts to 80% of the first million lire thus invested. Building expenditure in excess of the first million lire is borne entirely by the owner.

The capital subsidy is, however, only granted for small houses which before the war did not consist of more than six flats.

The same subsidy is available for rebuilding single family houses (even if they are situated in communes of more than 10,000 inhabitants) provided the owner is of modest means and does not possess any other dwelling in the same commune.

5000  
3000000 600

Chapter XIX

N O R W A Y

A comparatively large proportion of the Norwegian population lives in the country or in small urban centres. Only four Norwegian towns have a population of over 50,000 inhabitants. The majority of houses consist of small buildings for one or two families.

Housing output was comparatively high during the inter-war period. Between 1930 and 1940, 12,000 to 16,000 houses a year were built in Norway for a population of 3,000,000, i.e., 4-5,000 per million inhabitants. General housing standards during that period rose continuously, and the number of smaller houses diminished. In 1920, more than 20% of the population were living in overcrowded flats (i.e., with more than two persons per room, including the kitchen); in 1939, the proportion had fallen to 9%.

During the war 3% of all houses were destroyed in hostilities. Nevertheless, the factor most influencing the housing situation was the almost total interruption in house building for a period of 5 to 6 years, during which, as a result of the trend of the birth rate in the preceding decades, the increase in that part of the population capable of producing children was small. The shortage of houses was estimated at the end of the war to be approximately 110,000.

Destruction of housing during the war chiefly affected the most northerly parts of the country, on the Arctic coast. In the early years, reconstruction had to be concentrated in that area, and a special administration was created for that purpose. The enormous distances involved led to very great transport and other difficulties, but reconstruction nevertheless took place fairly rapidly.

Elsewhere, the shortage of materials and of labour in the early post-war years kept housing output at a low level. However, since 1947 building has been reorganized and output has reached a figure corresponding to or exceeding the pre-war figure. The increase in the marriage rate has nevertheless led to an increased housing shortage, a shortage which was calculated in 1950 to be nearly 125,000 houses.

As has occurred in various countries where building financing has been effective, but where investment needs in other fields have been considerable, with the result that there has been strong competition for the limited supplies of materials and labour, house building in Norway has been subject to direct control through the institution of rationing of materials and of building licences.

The increasing difficulties in building in the past year have necessitated special measures to reduce consumption of materials and the use of labour. These measures are aimed chiefly at the reduction of the output of single-family houses in favour of houses for two or more families and at the construction of houses which allow economy in the use of wood (the majority of houses built in Norway are of wood).

#### I. Financing of House Building

Credits during building operations. Short-term credits during building operations are usually provided by private credit institutions, such as commercial banks and savings banks. Since the war, the conditions of such financing have been increasingly regulated under State housing financing measures. In conformity with a decision by the State long-term building credit organization to finance buildings after they have been built, commercial banks, savings banks etc. provide credits during building operations. Interest on these loans is generally  $3\frac{1}{2}\%$ , plus an additional charge of  $\frac{1}{2}\%$ .

Before the war the principal bodies providing building loans were the savings banks, the insurance companies and special mortgage-loan institutions. Building was financed to a certain extent out of various public funds, pension funds etc. A substantial number of building loans were also made by private investors.

The mortgage-loan institutions which played an important part in pre-war Norway in the financing of house-building were the credit associations, set up under a law enacted in 1907, for making primary loans, and the mortgage-loan associations, established under a law enacted in 1935, for the granting of second-mortgage loans. These institutions obtained their capital by the issue of bonds. In 1939, they were together responsible for about 10% of the building credits granted.

The "Smaåbruk-og Boligbanken", which was set up in 1903 and reorganized in 1915, has a special status. It was designed to assist persons with low incomes to obtain a house of their own, whether tied or not to a small farm-holding, by granting them official loans at low rates of interest which were generally guaranteed by the local authorities. Its activities were primarily restricted to rural housing. The loans granted by this bank were generally so small, however, that they sufficed only for the building of very modest types of dwellings.

Financial contributions on the part of local authorities were restricted to certain of the larger municipalities. In Oslo, the contribution was made in the form of exemption from taxation over a certain period, the guaranteeing of loans up to a higher mortgage limit than was allowed by the credit institutions, and the granting of special loans to the co-operative building undertakings. In practice such aid from the local authorities only benefited persons in the lowest income groups.

On the whole, the building loan system applied in Norway before the war is not considered adequate for the efficient financing of house-building. Ordinarily, it was possible to obtain first-mortgage loans from the savings banks, insurance companies etc. at a rate of 4 - 5%. In the cities secondary loans could also be obtained at a rate of  $4\frac{1}{2}$  - 6%. Such loans only covered 60% of the building costs as a rule, and the remainder had to be met by short-term loans bearing a high rate of interest and with capital put up by the future owners of the dwellings concerned. The financing costs encumbering houses were therefore very high. The annual rent of apartment houses amounted to about 10% of production costs, about  $\frac{3}{4}$  of which represented capital charges.

Even before the war, official intervention was sought with a view to securing more favourable terms for the financing of building operations, and in 1936 a proposal was put forward by the Government to set up a State Bank which should provide second-mortgage loans to cover up to 80% of the value, but that proposal was defeated. In 1938, a State Commission was appointed to study a proposal whereby an official credit scheme to promote house-building was to be instituted, but the work of that Commission was interrupted by the war and the occupation.

After the war, the conditions governing housing credits were substantially modified. Reconstruction of war-damaged areas and new building to make good the shortage brought about by the war were tasks of pressing urgency. Building costs had increased considerably, and as the authorities were intent on carrying through a housing policy ensuring the provision of dwellings fulfilling certain social standards the housing question and the organization of building credit became part of the Government's social programme.

The pre-war plans for second-mortgage loans to be granted by the State were therefore considered inadequate. In view of the substantial increase in building costs, the 80% limit for such loans was considered to be much too low. Furthermore, the loans needed to be combined with subsidies in order to allow rent levels which were socially equitable. It was also considered opportune to introduce a system whereby the whole building enterprise could be financed in a single operation rather than by the previous system of primary, secondary and even higher grades of loans. Negotiations on the subject accordingly resulted in the proposal to set up a State Housing Bank.

The activities of the State Bank were intended, in principle, to apply to all housing construction in the cities and other densely-populated areas, and not only to the reconstruction of war-damaged properties. The financing of rural dwellings proper was to be the concern of the aforementioned Småbruk-og Boligbanken, which would be reorganized for the purpose. The business of financing the reconstruction of war-ravaged areas (the most northerly provinces of the country) was to be organized by setting up branches of the two State Banks, whereby those branches would enjoy a larger measure of autonomy.

As regards the economic principles underlying official financing policy, a primary condition was the establishment of socially equitable rent levels. In general, the rent should not exceed one-fifth of the family income and, in the case of large families, it should be even less. Developments during the war had resulted in a reduction in interest rates, whereas building costs had risen to an appreciable extent. Even taking into account the rise in incomes that had occurred during the war and the increased ability on the part of tenants to pay corresponding

money rents, it was not possible, because of the high post-war building costs, to attain the proposed objective in the matter of rent levels unless the rate of interest were reduced still further or very substantial direct subsidies were granted. It must be realized that a reduction in the rate of interest to 2, 3 or 4% would result in such a substantial reduction in financing costs by comparison with pre-war conditions that such a measure would offset the effect of a 40% increase in building costs. At the end of the war and the occupation, the actual increase in building costs was estimated to be about 50%. When building activities were resumed, however, a much larger estimate of that increase proved to be justified.

The most noteworthy feature of housing policy in Norway during the first year after the war was the consistent effort made to reduce the need for direct subsidies for house-building by lowering the official rate of interest. This implied that the State, through its various financial organs, would dominate the building credit market entirely, and it was anticipated that if the interest on building loans were once lowered to a level (established at 2½%) best serving the purposes of building policy, the capital interest market in general would gradually adjust itself to that level.

The reduction in the rate of interest proved to be insufficient for the attainment of a socially equitable rent level. Besides interest-bearing State loans, therefore, capital subsidies were introduced of a kind similar to the supplementary loans which had been established in Sweden during the war years, i.e., interest-free unredeemable loans, calculated according to the expected yield from the property in each case. A special financial grant was instituted for large family dwellings.

The housing policy measures adopted in post-war Norway were primarily directed towards a radical rationalization of the system of financing house-building. It was abundantly clear that the private financing methods in application before the war were inadequate to finance both the reconstruction of war-devastated areas and the substantial building programme required to satisfy current demand and make good the deficiency in house production during the war years. The application of a system of State credits was considered to be preferable to private financing methods, as the

State, in distributing the burden of risk among the taxpayers as a whole, was able to assume the greater risks incurred by supplying larger loans than private credit institutions could afford to do. On similar grounds, the State was able to assume the risk of longer-term redemption and thus reduce annual capital charges. Furthermore, the State was able to lend money at a lower rate of interest than private investors, because it would obtain cheaper capital.

This system was implemented in 1946 by the establishment of the "Norske Statens Husbank", the purpose of which was to grant building credits, preferably for housing in towns and densely populated areas, and to act as an agent administering State and local government financial aid for reconstruction and new building. Certain provision was made for the Bank to grant loans in the course of building operations, especially in war-devastated areas. A basic fund of 20 million Norwegian crowns was allotted to the Bank by the State which, in addition, assumed responsibility for the administrative expenses. Public funds to an amount of 10 million Norwegian crowns were also paid to the bank, 6 millions being provided by the State and 4 millions by the local government authorities. These funds were to be used to cover any losses incurred in connexion with the loans. Two-thirds of the amount of any deficits under that head were to be met by the State and one-third by the local government authorities of the areas in which such losses occurred.

The capital needed by the "Husbank" for its loans was to be obtained by means of State-guaranteed bond issues. In the event of the Bank being unable to borrow the capital on the open market at the rate of interest at which the loan was to be granted, the entire deficit was to be borne by the State.

The direct subsidies which the "Husbank" was to be authorized to provide in addition to the interest-bearing loans were normally to be met to the extent of  $\frac{2}{3}$  by the State and  $\frac{1}{3}$  by the local authorities. For calculating the subsidy required the Bank was to take as a basis the assessment of the property in the light of a socially equitable rent. If the building costs exceeded the sum thus determined, the Bank was authorized to grant a subsidy in the form of interest-free and unredeemable loans, later to be rendered wholly or partially interest-bearing, or to be redeemed if circumstances required. The Bank itself could require that



the borrower should himself put up a sum, determined according to individual circumstances, in order partially to cover that part of building costs not covered by an interest-bearing loan.

During the years that have since elapsed direct subsidies have amounted to about 15% of building costs. Without the State loans and the subsidies, the rents of houses built since the war would of necessity have been at least 50% higher. While it is true that money incomes in Norway have increased still more, State aid for housing is considered necessary for several reasons. The pre-war ratio of rents to incomes is considered to have been socially inequitable. In addition, efforts have been made to build larger houses in the towns and better equipped houses in the country, which would have been impossible if rents had been appreciably higher. It has also been considered desirable to reduce the disparity between the rents of new buildings and those of houses built earlier, rent control regulations having pegged the latter at 10% below the pre-war level. A factor which seems also to have had some effect is the fear of a fall in the level of prices and wages in the post-war period, as occurred after the first world war.

As stated above, a State credit institution for social development purposes, the "Småbruk-og Boligbanken", had for long been operating for the provision of loans, particularly to small-holders, fishermen and forestry workers. At the same time as the establishment of the "Statens Husbank", the "Småbruk-og Boligbanken" was reorganized, the fields of activity of the two State banks were defined, and the regulations for the granting of loans and subsidies were co-ordinated on a uniform basis.

During recent years nearly 80% of all housing built in Norway has been financed with the assistance of State loans and grants in one form or another.

## II. Present conditions of financing

The method of financing the small proportion of house-building carried out without State loans is difficult to define. Generally, in such cases, a very large proportion of the capital has to be provided by the owner or through the medium of short-term loans against collateral other than mortgages.

To State financing as practised in the greater part of the house-building field, the following general rules are applied:

The interest-bearing loan granted by the State Bank is fixed in relation to the income-yield of the building, which, normally, is less than the actual building costs and which, under given economic conditions, is reckoned as equivalent to the permanent value of the building. Although, according to law, the Bank is authorized to grant loans up to 100% of the amount of the income-yield, this does not occur in practice. The maximum level for loans has been set as follows for the different categories of borrowers:

1. Building carried out by local authorities or recognized co-operative undertakings . . . . . 90%
2. Houses for 1 to 4 families built by the prospective occupants . . . . . 85%
3. Others . . . . . 75%

If justified by circumstances, these levels can be raised to 95% in the case of categories 1 and 2 and to 85% in the case of category 3.

The actual loan-limit is, however, often below the maximum figures quoted above. Thus, in 1948, the average loan-limit was 77% of the anticipated value for buildings to house 1 and 2 families, and 88% for buildings to house more than 2 families. In view of the fact that the difference between the loan and the income-yield from the house has to be covered by the owner's capital and that the majority of houses built in Norway after the war are the property of their occupants or of the co-operative undertakings requiring their member-occupiers to put up some capital, these contributions from private sources for housing are often on a considerable scale.

Contrary to the general practice in Sweden and Denmark, the operators of the "Norske Husbank" include the granting of primary loans also.

The rate of interest of the "Husbank's" loans is 2½%, being only about half the rate obtaining before the war. This interest is pegged for 15 years, and, as

stated above, the State bears the risk of the "Husbank's" being unable to borrow money at that rate. During the post-war period the "Husbank" has usually been able to borrow at  $2\frac{1}{2}\%$  owing to the State guarantee of its bonds. However, during recent years there has been a tendency for the rate of interest of the bonds issued by the "Husbank" to be forced upwards, which explains why the Bank's borrowing rate has risen above its lending rate.

Redemption is at the rate of 1% of the initial loan for stone houses and  $1.1\frac{1}{3}\%$  for wooden houses. The annual instalment at the beginning of the period of the loan is therefore  $3\frac{1}{2}\%$  for stone houses and  $3.5\frac{1}{6}\%$  for wooden houses.

The loans of the "Husbank" are granted subject to the regulations controlling the rents of buildings let out as apartments to those governing the sale of buildings, which is not permitted without the Bank's consent.

As indicated above, interest-bearing loans are calculated on the basis of the permanent income-yield of the buildings. To cover the difference between these two items, and to allow of a socially equitable rent, certain categories of building undertakings may obtain, in addition to the interest-bearing loan, a capital subsidy in the form of an interest-free, unredeemable loan.

This subsidy is mainly limited to single-family houses in cases where the owner's income is regarded as insufficient to meet his annual housing costs unsubsidized, and to co-operative and local government undertakings whose houses are purchased by persons with incomes below a certain figure. As an incentive for the reduction of building costs, the subsidy is granted in the form of a fixed sum per square metre of habitable area. Owing to the differences in building costs and in levels of income obtaining in the various parts of the country, the need for subsidies is itself widely fluctuating. For this reason, the country has been divided into zones, the amount of the subsidy ranging between 60 and 100 crowns per square metre according to zone. On average, as stated above, the subsidy amounts to 15% of the building and ground costs.

To qualify for the subsidy, the house must be of an area conforming to certain conditions laid down on the basis of the accepted normal standard for a single-family house. The maximum dimensions permitted have been successively reduced

during recent years owing to the need for greater economy in materials and labour, and also for reasons of State finance.

The subsidy may be reduced in certain cases, such as the absence of a bathroom or of other features of equipment, and also when industrial undertakings make grants for the housing of their workers. These concessions by employers are very widespread and are a factor in the competition for the recruitment of scarce categories of labour.

These factors create certain difficulties when it is required to calculate the annual repayment instalment on the total capital including the subsidy, since the size of the latter, the size of the loan in relation to the income-yield of the building, and the sum contributed by the interested party are highly variable. If, for example, in the case of a stone house for several families, the subsidy amounts to 15% and the interest-bearing loan to 90% of the income-yield of the building, the annual instalment on the State loan, calculated by reference to the entire capital (building and land costs), is about 2.7%, excluding any return on the owner's own investment. If the same annual instalment is assumed for the latter as for the State loan, the overall annual instalment on the capital amounts to approximately 3%. In the case of a wooden house for a single family where the subsidy is 15% and the interest-bearing loan is 75% of the income-yield of the building, the two corresponding annual repayment instalments would be respectively 2.5 and 3.3%. The actual capital charges which the owner of the property has to meet are often considerably higher particularly during the first few years after building, owing to the fact that he has to resort to dearer short-term loans to cover his own contribution.

As explained above,  $\frac{2}{3}$  of the subsidy are borne by the State and  $\frac{1}{3}$  by the local authorities. As a general rule, one of the conditions prerequisite to the granting of a loan by the "Husbank" is that the local authorities shall exempt the building from taxation for a period of 20 years.

As in the other Scandinavian countries, there exist in Norway in addition to cheap general loans and subsidies, special grants for certain categories of house-builders. These are, however, less well developed in Norway than in Sweden and Denmark, and usually amount to no more than reductions of interest for families with more than one child, the rate of reduction being fixed per year and per child. The local authorities, who have to provide a contribution of 1/3 for this type of subsidy also, have wide powers to determine both the manner in which the subsidy shall be granted in the district in question and the income and other qualifications required.

## Chapter XX

### NETHERLANDS

In recent years the birth-rate in the Netherlands has been the highest in western Europe, and this, combined with a low death-rate, has meant a considerable and continuous increase in the population. Between the two wars, there was an average annual increase of more than 100,000, and during the initial post-war period, the population rose by about 200,000 every year. More recently, it has shown a slight tendency to drop. In spite of a certain amount of emigration in recent years there is still a pressing need for extensive building in the Netherlands to provide accommodation for the increasing population, quite apart from the serious problem presented by the aftermath of war.

From the middle of the 19th century, the lack of facilities for an increasing agricultural population resulted in a very rapid expansion of the cities and of industry. The Netherlands is to a large extent a land of town-dwellers, and more than 80% of the population live in urban districts. During the last half of the 19th century, this rapid development of the towns seriously upset the social balance so far as housing was concerned.

Thanks to the far-sightedness and breadth of vision of the housing policy adopted in the Housing Law of 1901 - which may serve as an example - and also to other circumstances, housing conditions in the Netherlands made very favourable progress during the first 40 years of the present century. The number of one and two-roomed homes, which in 1900 accounted for about 60% of all accommodation, represented only just over 20% in 1930 - probably the most rapid improvement to be found in any country. In any comparison of housing conditions in the Netherlands with those in other western European countries, it must be borne in mind that, in the Netherlands, the high birth-rate has meant that the number of persons in any given home is, in general, very large.

During the war, about 90,000 dwellings were entirely destroyed, and if account is taken of the number of homes which were partially destroyed or slightly

damaged, the country's losses amount to 8% of all the accommodation available in 1939. According to an estimate made in 1947, this damage and, more particularly, the complete stoppage of building schemes throughout the war resulted in an accumulated housing deficit of more than 300,000 homes.

The serious setback which the finances of the country suffered as a result of war damage and the German occupation, the primary duty of repairing essential production machinery and the lack of building materials and labour, all these resulted in a very small amount of accommodation being built in the initial post-war years. From 1948, the amount built was large as compared with pre-war figures and, until last year, it continued to increase, though without there being any appreciable alleviation of the housing shortage.

The limited amount of ground available, and perhaps financial difficulties as well, have led to certain changes being made in building methods since the war. Formerly, the number of detached homes or rows of houses built was very large, but now, owing to the scarcity of building sites, a larger number of bigger three or four-storey blocks have had to be erected. After the war few temporary dwellings were constructed, but recently, to provide accommodation more rapidly for a larger number of families, the system has to some extent been applied whereby dwellings intended for a single household are temporarily divided so that two families can be accommodated.

#### Trends in the financing of house-building

The system of granting credit while construction is in progress varies a great deal, depending on whether the builder is a private individual, a commune or a public utility undertaking. Since the war, this last form of enterprise has been predominant. A private contractor has to pay about 5% interest on the credits granted him by private credit institutions while his building is in progress, whereas communes or public utility undertakings can raise money for their building schemes through short-term loans at 1½% to 2%.

Before the second world war (except for a time during and after the first world war), most housing schemes were financed in the Netherlands from private sources. After 1901, public funds were made available by law for building

schemes, but they provided only a small proportion of the capital required. From 1925 to 1940, up to 85% to 90% was obtained by borrowing from mortgage institutions, insurance companies and savings banks.

Most of the expense (60% to 65%) is usually covered by first mortgages from credit institutions at a rate of interest roughly equal to, or only slightly greater than, the rates obtaining for government bonds. Second mortgage loans can also be obtained at a higher rate of interest, but this is not a common practice.

Since the war, official loans have financed the majority of housing schemes and the main stress has had to be laid on the conditions under which such loans are granted.

Reference has already been made to the fact that a systematic building policy was developed earlier in the Netherlands than in any other country. The Law of 1901 made provision not only for building and town-planning schemes but also for State aid to communes and, if guaranteed by the communes, to public utility undertakings building inexpensive houses in cases where private builders with their private funds could not produce enough accommodation.

A feature of the 1901 Housing Law which is important for recent and future building trends is that it contains provisions relating to non-profit-making undertakings which, under the guarantee of the communes, can obtain financial assistance from the State. These provisions were originally included to cover the philanthropic and co-operative undertakings which had developed to a limited extent during the second half of the nineteenth century. Under the Law of 1901, the recognition of an undertaking as being of public utility means that it can obtain State loans under certain terms reserved for building societies. The sole object of these provisions was to improve housing conditions, and the members of such societies were not intended to enjoy any financial advantages, except for a certain dividend on their shares, while the conditions governing the free disposal of the premises and the redemption of building loans could be altered only with the consent of the communal authorities. In the event of an undertaking closing down, its assets were to be placed at the disposal of the commune.



Both co-operative and non-co-operative enterprises have been included in this category of undertakings; they are not, however, independent co-operative undertakings as in Sweden for example. On the contrary, they broadly correspond to the type of "social" building societies instituted by Danish law in 1930.

Under the Law of 1901, the building societies could, with the communal guarantee, obtain official loans covering up to 100% of the building costs, as well as assistance for the purchase of the site. Such loans had to be redeemed within 75 years. Initially, however, their work was relatively limited. During the ten years immediately before the first world war, about 5% of all accommodation was built by public utility undertakings.

During the first world war, when house-building in the Netherlands was limited, albeit to a lesser degree than in the majority of European countries, including those not engaged in hostilities, public utility undertakings acquired a much greater importance, which increased still further during the first post-war years. Together with the communes, which carried out building work under their own management, they for some years accounted for between 80% and 90% of total house-building. During that period almost all such construction was carried out on the basis of financial assistance from official quarters.

In addition to official financial assistance, the increases in building costs during the first world war necessitated the introduction of direct State subsidies, partly in the form of interest bearing subsidies, and partly in that of grants to cover the war-time increases in the cost of materials. These subsidies were gradually abolished during the deflationary period from 1921 to 1923.

Between 1920 and 1923, subsidies could be granted not only to public utility undertakings but also to private persons building for their own personal use.

From 1924 to 1940 building activity was very marked in the Netherlands, particularly at the beginning of the period. Measures of assistance were taken for certain categories of persons requiring housing (agricultural workers and large families living in condemned dwellings), but were not on a very large scale. The financing of house-building was effected mainly from private sources, but the

granting of loans on the basis of the Law of 1901 continued throughout the period; at that time the communes and public utility undertakings accounted for 10 to 15% of total production.

The situation in which the Netherlands was placed after the war was such that the greater part of house-building had of necessity to be performed with State financial assistance. Private building credit establishments, it is true, were on occasion able to place capital at the disposal of house-building and, from time to time, the granting of interest-bearing State loans by the competent authority was completely suspended, loans being obtainable on the public market at the same rates of interest as those envisaged under the legislation dealing with house-building. This procedure was at the same time strongly influenced by the fact that the State, in order to carry out its housing programme and to achieve the objectives of its general financial and economic policy, heavily subsidized new construction.

Post-war Netherlands housing policy has been determined not only by the specific aims of overcoming the housing shortage and maintaining housing standards but also, and to a large extent, by considerations of general economic policy. This has of course been the case, to a greater or lesser degree, in all countries pursuing an active housing policy. But these aims are perhaps more clearly apparent in the Netherlands than in any other country.

Price and wage controls designed to combat the inflationary tendencies inevitably resulting from the greatly increased investment needs for reconstruction and from the political and commercial situation of the country, were very rigorously applied in the Netherlands during the first post-war years. In this connexion, the "pegging" of rents of all existing dwelling-houses was regarded as an essential part of the efforts to stabilize prices and wages. The rents of the above-mentioned category of housing were maintained at the level of the spring of 1940.

Since building costs have increased by about 250% as compared with the pre-war period, an "economic rent" for new houses - other conditions remaining the same - would have to be fixed at a high level which would not stand in any

relationship to the rent of the old houses. During the first post-war years the opinion was held in the Netherlands that the level of prices and building costs would fall in the not too distant future, as had been the case after the first world war owing to the deflation of 1920 to 1923, and these views have had a certain influence. Hence it seemed reasonable to grant subsidies for the time being to building work which had to be performed at the new high prices. Deprived of State financial support, house-building was to be further hindered by the prohibitive risks affecting new houses with rents much higher than those of older buildings. In addition, the "economic rent" for the new houses would have been higher than the great majority of the population could have afforded to pay unless wages were raised to a level not in accordance with the intentions of general economic policy.

As a result, the State was obliged heavily to subsidize house-building in order to allow the rents of new buildings to be fixed at approximately the same level as those of previously constructed houses. A margin of 30% was permitted. During the past few years rents of new houses have, in point of fact, somewhat exceeded the level previously accepted.

As regards post-war rent policy and building subsidy policy, it can be stated that the measures taken are mainly in the nature of temporary remedies intended to fill the gaps caused by inflationary developments. This has indeed been the case, to a greater or lesser extent, in the majority of countries which have subsidized new house-building since the war. It is certain, however, that measures of this kind may have to be of long duration should new complications delay the possibility of establishing an equilibrium between unsubsidized building costs and rents. This equilibrium may be obtained by a reduction in building costs, but the likelihood of this occurring must, particularly in view of the inflationary trend of the past year, be regarded as practically non-existent, or at least as being less than might have been expected at the end of the war. Equilibrium could also be established by a rise in the level of rents which, if the relation between incomes and rents is to be maintained, can only be effected gradually by an increase in real incomes and in the value of money.

It is believed in the Netherlands that a progressive increase in rents is inevitable. A preliminary increase of 15% (offset by certain tax rebates) was decided upon and put into force this year. In this connexion the possibility could also be investigated of achieving, by means of a limited general increase in rents combined with a tax on old buildings and a subsidy for new production obtained from the revenue accruing from such a tax, a more lasting equality of rents in the various age-groups of dwelling-houses erected with different building costs. This question could be discussed in the Netherlands as in some other countries.

The financial basis of house-building in the Netherlands after the war has in the first place been provided by the State loans granted in accordance with the relevant Law of 1901. For more than forty years these loans have been granted, on a varying scale, to communes and to public utility building undertakings. When, after overcoming the difficulties of the first post-war years, house-building was restarted on a larger scale -in 1947 and 1948 - 70 to 80% of total production was carried out in this manner. The State granted loans, guaranteed by the communes, covering the total building capital, at a rate of interest of 4% and redeemable in a period of 50 years for the building and 75 years for the site. Special regulations were introduced for financing the rebuilding of houses destroyed by war action. As regards buildings constructed by private persons, secondary mortgage loans could be obtained covering a maximum of 15% of the building costs.

For the reasons explained above, the State granted a subsidy and took over the losses on the management of the buildings due to the difference between the actual annual expenses and the income from rents limited by "pegging" at the 1940 level.

The subsidy as thus fixed was of very considerable value, reaching 50%, or even more, of the "economic rent".

Even dwelling-houses built by private persons were subsidized under the special regulations of 1947 and 1948 in the form of an annual grant for a period of 10 or 15 years of 4% with respect to the non-interest bearing building costs.

At the end of this period the subsidy was to be converted into a capital subsidy if this proved necessary.

When the development of the Netherlands money market had become such that the communes (both through the intermediary and under the guarantee of the communes) were able to obtain loans at a rate of interest equal to or somewhat lower than that of State loans, parties desirous of obtaining loans in accordance with the housing law were asked to seek them (with the guarantee of the communes) on the public market, i.e. from insurance companies, pension funds, etc.

The financial assistance granted to house-building has been successively modified during the post-war years. In 1948 an adjustment was effected in the assistance given to the communes and to public utility undertakings, and interest-free loans were provided to the extent of the difference between the capitalized value of the permitted income from rents and the real construction costs of the building. On review, these loans could later be rendered interest-bearing if the level of rents rose. A new adjustment was carried out in 1950, affecting principally the conditions of loans to private persons.

During the last few years various measures, including financial measures, have also been taken to economize in materials and labour, to reduce the cost per flat (in large buildings) and to increase the number of individual dwellings in a given volume of construction. In this connection special mention must be made of the so-called "duplex" apartments, i.e., apartments intended for use by a single family but temporarily divided to receive two families ("duplexwoningen"). Reference should also be made to the reduced grants accorded in the case of blocks of flats capable of being built at exceptionally low cost, compensation here being given in the form of an allocation to a larger number of dwellings.

#### Present conditions of financing

As will be clear from the above remarks, the system of financing current in the Netherlands varies considerably according to whether the dwellings are being built under the management of the communes and public utility undertakings, or by private undertakings with State financial support. Besides these groups there

is also the minor portion of production which is carried out without State financial support and for which it is scarcely possible to indicate any uniform conditions of financing.

As regards building carried out by communal and public utility undertakings, financing is based on the capacity of the communes to borrow the necessary funds (either on the public market or from the State, according to the housing law) at a rate of interest closely linked with the lowest available rate of interest for long-term loans. These funds are at the direct disposal of the communes or are placed at the disposal of public utility undertakings acting under official supervision. It should be pointed out that, contrary to the situation during the first world war and during the inter-war period, since the second world war the greater part of house-building coming within this group has been carried out by communal undertakings.

The financial support granted to public utility undertakings is subject to certain conditions under the Housing Law in addition to those which have been indicated above. Thus, as long as the loan is unredeemed, the communes have the right to take back the dwelling houses from the undertaking in question, together with the assets and liabilities involved. Any surplus which the management of the building may have yielded is granted to the undertaking up to a limit of 20% of its value, the rest being earmarked for the repayment of grants received, or for pursuing housing policy objectives to be fixed by the communes.

The latter accept entire liability for losses on the loan. They are likewise responsible for constituting reserves intended to cover any deficits in the running of buildings and also unforeseen capital expenditure.

The rates of interest on loans to communes and to public utility undertakings have fluctuated in recent years between  $3\frac{1}{2}\%$  and  $4\%$ . The redemption period was, as has been said above, 50 years for the building and 75 years for the site, thus bringing the annual instalment on the whole of the capital to approximately 4 to  $4\frac{1}{2}\%$ . Since the State ceased to grant loans and to refer the communes to the public market, the conditions of redemption have varied somewhat without however having any considerable influence on the amount of the annual instalment. According

to the 1943 regulations on the subject, the calculations by which the official grants were determined assumed a rate of interest of 4%. In 1950 this rate was reduced to 3½% although no corresponding reduction had occurred on the public capital market, and this implied an increase in the risks of the communes in financing housing.

(The advisability has been discussed in the Netherlands of considerably prolonging the redemption period for dwelling houses, thereby reducing annual financial costs).

In view of post-war building costs, the total annual costs of construction, represented by the annual repayment instalment on the loan and the annual running costs (rates and taxes, water, repairs, administration, insurance, deficits on rents) greatly exceed the income from rent which can be obtained in conformity with the principles of rent policy described above. As a rule, the State pays the difference in the form of annual grants, the amount of which during the post-war years has usually been about half of the total annual costs of the building. If this annual grant is deducted from the annual repayment instalment on the loan and if the remainder is regarded as net financial costs, these latter are normally reduced to a rate of from 1½ to 2%.

By the terms of the 1948 Decree on the subject, the State grant per cubic metre was to cover the difference between, on the one hand, the permitted annual running costs ("jaarlijkse exploitatiekosten"), i.e., annual repayment instalments for the site and the building, maintenance expenditure up to a certain sum, rates and taxes, water, fire insurance, general charges and deficits on rents and, on the other hand, the amount of rent permitted on the basis of a "theoretical" calculation taking account of the principle that the rent should as a rule coincide with the total annual costs reckoned according to the level of 9 May 1940. Certain changes were made in this connexion under the terms of the 1950 Decree. The grant is no longer assessed on a cubic-metre basis, but on the number of units of sleeping accommodation available in the dwelling: supplements may be allowed in the case of higher foundation costs (i.e. if built on piles). The "theoretical" calculation has been abandoned. Application has to be made to the Communal

authorities to fix the amount of the rent, which in general is 30% above the 1940 level.

As a result of the higher interest charged on loans, the rents of dwellings built with "dear money" had to be increased to 45% above the pre-war level. Furthermore, the "pegged" rents of pre-war houses were increased by 15% in order to reduce the discrepancy between pre- and post-war rentals.

There are therefore at the moment three scales of rents as expressed in terms of the rents obtaining in the spring of 1940:

- (a) 115% in the case of pre-war houses;
- (b) 130% in the case of post-war houses built with cheap money; and
- (c) 145% in the case of houses built with the aid of high interest loans.

Besides the "maximum grants" accorded to most of the building work carried out by the communes and public utility undertakings, "reduced grants" have been made during the last few years amounting to 60% of the maximum grants and taking the form of fixed sums paid annually. These reduced grants are designed to promote the introduction of cheaper and more rational building methods. When building can be carried out by means of these reduced grants, compensation is given in the form of an allocation of a larger number of dwellings.

As regards private building undertakings (which seem to have increased their relative importance during the last two or three years in comparison with 1947-48), financial aid is provided in another form than that enjoyed by communal and public utility undertakings. For private undertakings there was instituted in 1950 a so-called bonus regulation, differing fundamentally from previous regulations, which, as has been said above, involved annual grants for 10 years in general, representing 4% of the total permitted non-interest-bearing building costs and half of the fraction of the building capital still non-interest-bearing after 10 years. This method was considered difficult to work out accurately, liable to risks and not to provide sufficient incentive for private house building work. These grants were replaced by the bonus regulation of 1950, which constitutes a direct capital subsidy without security granted from the time of erection of the



buildings. To provide the portion of the building capital not covered by the capital subsidy for private house building, loans can be obtained on the public market (mortgage banks, insurance companies, etc.), usually up to a limit of 65% and at a rate of interest which, in the most recent period, has been from  $3\frac{1}{2}$  to 4% with redemption at 2% per annum. In addition, second mortgage loans may be granted up to a limit of 85% of the value of the non-subsidized portion. The annual repayment instalment-account being taken of the subsidy - on the portion financed by building loans is normally reckoned at  $5\frac{1}{2}$  to 6%.

According to the bonus regulations of 1950, subsidies may be obtained by natural and juristic persons for building dwellings with a maximum volume of 375 cu. m. for single-family houses and 325 cu. m. for other buildings. This limit can on occasion be exceeded, especially in the case of houses intended for families with more than six children in residence (to a maximum of 450 cu. m.). According to the floor space and the number of persons who, in conformity with certain standard regulations, occupy the building, the amount of the subsidy varies from 3,000 to 5,000 florins for houses for one and two families, from 3,100 to 5,200 florins for three-storey blocks of flats for a number of families, and from 3,200 to 5,600 florins for blocks of flats of four-storeys or more (thus according a certain bonus to multiple storey buildings which reduce costs). Further supplements are envisaged in cases of heavy foundation costs (where pile-driving is involved). On the average the capital subsidies reach from 30 to 40% of the total costs.

By the terms of the same 1950 bonus regulations, private building undertakings may also obtain "reduced grants" up to a limit of 60% of the general grants, the maximum volume of the dwellings being in this case fixed at a lower figure - 260 cu. m. for single-family houses and 240 cu. m. for others.

## Chapter XXI

### UNITED KINGDOM

#### Introduction

In Great Britain, more than in any other country, the housing question is connected with the slum problem especially in the large cities which grew parri passu with the industrial expansion of the latter part of the eighteenth century and onward. The housing problem in England has thus been primarily one of social hygiene. During the periods following the two world wars, when the acute housing shortage was the most important factor in housing policy, the task of slum clearance constituted an important feature of long-term housing programmes.

The first world war resulted in a housing shortage in England and Wales of more than 600,000 dwellings. This shortage coupled with the need brought about by the progressive increase in the number of families, meant that almost two million dwellings would have to be built over a period of ten years, if the gap were to be bridged by the end of that period. In that case more than double the production of the decade preceding the first world war would have to be attained.

Furthermore, by the end of the first world war the capacity of the building industry had declined, while, owing to rent restrictions and the large increase in the cost of building, the economic outlook in housing construction was such that private enterprise construction on a scale adequate to meet the needs of the great mass of the population was out of the question.

During the period between the wars, a series of housing schemes to meet the housing shortage brought about during the first world war and to clear the slums were adopted and implemented with varying degrees of success. The dearth of materials and labour and the great fluctuations in building costs hampered housing production during the first postwar years, and the shortage increased. Moreover, as the nineteen-twenties proceeded, production resources and output increased to such an extent that during the eleven years between 1923 and 1934, total production in England and Wales amounted to more than 2.2 million new dwellings,

i.e. 28 per cent of the total number of houses standing at the beginning of the nineteen-twenties. Thus, the deficit remaining from the first world war had in the main been met, the housing needs of the steadily increasing number of families were satisfied, and it then became possible to abandon the housing policy measures that had been adopted. In the housing policy measures adopted during the remainder of that decade up to the outbreak of the second world war, emphasis was laid principally on slum clearance which was carried out with Government aid.

The housing policy measures taken by the State and local government authorities and the favourable development of production capacity, building costs and capital investments in housing construction during the period between the wars, resulted, on the whole, in a very substantial improvement in housing resources and standards. Altogether, some four million new houses of a generally high standard were built in England and Wales. By the outbreak of the second world war the housing situation in the country was very favourable in comparison with the majority of other countries; in addition slum clearance had begun in earnest.

During the second world war, house production came almost completely to a standstill. As a result of hostilities over 220,000 dwellings were entirely destroyed, 540,000 seriously damaged, and more than 3 million damaged in one way or another. The immediate need for new housing in England and Wales was emphasized in a White Paper issued in 1945 where it was stated that if every family were to be housed about 750,000 dwellings would be required. Some 500,000 additional houses were considered necessary to replace houses that had already been condemned and to combat overcrowding. Inventories made since that time have revealed that these figures distinctly underestimated the real housing need.

During the years immediately preceding the war the production capacity of the building industry in Great Britain was over 300,000 dwellings per annum. As a result of the war, however, this was greatly reduced. The manpower resources of the building industry dropped from 1 million at the outbreak of war to about 340,000; the output per worker was also substantially reduced. In spite of the shortage of labour and materials, however, production in Great Britain unlike that in the majority of the other belligerent countries, underwent a rapid recovery,

with the result that by 1946 nearly 140,000 dwellings, and by 1948 nearly 250,000 dwellings per annum were being produced. In accordance with general economic policy, however, the programme has been reduced to about 200,000 dwellings per annum. Between the end of the war and the present year about 1,200,000 dwellings, have been constructed or converted, nevertheless an acute housing shortage continues to exist.

#### Development of Measures for financing housing construction

Before the first world war practically all house building in England was in the hands of private enterprise and, with few exceptions, was financed by private capital. Even during the inter-war period, except for a time during the nineteen-twenties, the majority of houses were built by private enterprise without any financial support from the public authorities, although public financing also played an important and, at times, a dominant role in influencing developments. Since the second world war, however, public financing has been the rule.

The most important part in the financing of private housing construction in England has been played by the building societies. The banks, the savings banks and also the insurance companies, in particular, have to some extent furnished mortgage loans for housing, but they have been considerably less active in this field. The building societies originated in the form of co-operative credit organizations which obtained funds to finance housing on behalf of their members by a system of regular saving and redemption of members' loans. During the nineteenth century they developed into credit institutions covering the greater part of the market for housing credit. The building societies obtain their funds by selling shares to their members and by accepting assets from both members and non-members. Thus, they act as savings banks, but for the special purpose of financing housing projects. During the period between the wars they played an increasingly important part in the financing of new housing production, and over two million houses were built by private enterprise with the aid of building society loans. These generally covered up to 75 per cent of the estimated value (up to 90 per cent if additional security was given) and were redeemable over a period not exceeding twenty years. Loans were granted mainly for houses intended for owner-occupation, relatively few were granted for houses intended for letting.

The insurance companies have furnished building loans on substantially the same terms as the building societies, but on a very much smaller scale. Contrary to the experience of the Scandinavian countries, for example, in the United Kingdom savings banks have played a relatively small part in financing housing.

Although even as far back as the middle of the nineteenth century and later under the provisions of the Housing Act of 1890, local authorities in England were given powers to subsidize the building of workers' dwellings, very few houses had been built along such lines before the first world war broke out. Under the Small Dwellings Acquisition Act of 1899, local authorities were authorized to furnish loans for the building or acquisition of houses for owner-occupation up to a certain maximum cost, but here again comparatively little use was made of such facilities before the first world war.

The situation occurring as a consequence of the first world war and the series of radical measures necessitated by the housing shortage when the war ended, caused much greater emphasis to be laid upon public financing of housing than had previously been the case.

The problems which had to be solved after the first world war were in the main, to bridge the gap which had appeared between substantially increased building costs and the low returns due to rent restrictions, and to provide housing at rents within the means of families with modest incomes. Under the first of the post-war public housing schemes of the period, namely, the Addison Scheme of 1919 local authorities were compelled to prepare and put into effect plans for the construction of workers' dwellings in their respective areas, with rents fixed in accordance with the levels current in the district. The annual loss representing the difference between actual rent and economic rent was to be met by a State subsidy. Under an amendment to the Act of 1919 facilities were also afforded for granting subsidies in the form of a non-recurring payment to private enterprise building workers' dwellings. Because of steeply increased building costs these subsidies turned out to be somewhat costly; the scheme was therefore abandoned in 1921. About 200,000 houses were built under it, some 80 per cent of them under the auspices of local authorities.

The Addison Scheme was replaced in 1923 by a new project, known as the Chamberlain Scheme, which established the State subsidy at a certain fixed amount, i.e. £6 per annum per house for twenty years, subject to the stipulation that any further losses incurred should be borne by the local authorities. The scheme was designed to encourage private housing construction, and the local authorities were empowered to grant the State subsidy to private building enterprises. Of the 440,000 houses built under this scheme, 80 per cent were built by private enterprise.

In the following year, 1924, a further plan, known as the Wheatley Scheme, was introduced. It was a sort of compromise between the 1919 and 1923 schemes, and its essential purpose was to produce houses for letting, to be built by the local authorities and to be let at rentals established on the same lines as under the 1919 scheme. The State subsidy was fixed at £9 per annum per house for 40 years (with higher figures in the rural districts). Under the Wheatley Scheme over 500,000 new houses were built, practically all of them by local authorities.

As a result of a drop in building costs, the subsidies under both the Chamberlain and Wheatley Schemes were reduced in 1927. For the same reasons, private building projects, mainly financed by building societies without any contribution from public funds, also increased in importance. About 1930 it became possible to suspend the public subsidized schemes for housing construction; housing policy in England turned its attention to slum clearance. (The policy was effected through a series of Housing Acts, of which that of 1936 was, and still is, considered to be of fundamental importance in English housing policy.) As far as general housing needs were concerned, construction in the nineteen-thirties was in the main carried out by private enterprise and financed by private capital along the lines indicated above, without the aid of the public authorities.

It will be seen from the foregoing that the economic and organizational tasks devolving upon the local authorities as far as housing policy between the wars was concerned, were extremely significant. The contribution made by the State, apart from general measures of planning and control, consisted essentially of subsidies, which from 1923 onwards were established at certain fixed amounts per annum per house. These subsidies had of course a decisive influence on the possibilities of financing the production of suitable dwellings to meet the needs of families with limited means.

Even in connection with this category of housing production, however, the local authorities were obliged to make available other forms of financial aid. The English local authorities were given wide powers to raise loans for housing, and the restrictions imposed on their authority to raise loans for other purposes did not extend to loans for housing. The larger authorities were empowered to raise loans on the money market direct by issuing their own debentures, or from banks and insurance companies, while the public authorities in smaller districts, were given facilities to borrow from the Public Works Loan Board at a rate of interest depending on that charged on State loans. Generally speaking, local authorities were able to borrow at somewhat lower rates of interest and for substantially longer terms than private enterprise borrowing from building societies.

The same economic and financial problems arose after the second world war as after the first with the difference that because of the greater housing shortage they were more acute. Greatly increased building costs combined with rent restrictions created economic conditions which necessitated public action. While housing policy in England between the wars exemplified various forms of public financial aid for house-building, with varying contributions by private and public contractors and by private and public finance, post-war housing policy has been almost entirely in the hands of public authorities. Except only in the case of agricultural workers, State subsidies have not been granted to private enterprise. The tendency has been to concentrate as far as possible on housing for letting. Licences have been issued for private projects to a restricted extent varying between 10% and 20%. Furthermore, the formalities and conditions for house financing by the local authorities have been simplified.

The reason why housing construction by the local authorities has assumed a predominant role in the post-war period is because the government considered that priority for new houses should be given to those whose needs were the greatest. It seemed natural that housing production should for the most part be carried out under the auspices of local authorities, as they were better qualified for selecting occupants according to need rather than ability to pay.

In connexion with the financing of housing undertaken by the authorities, an important change was introduced in the form of the Local Authorities Loans Act of 1945. As has already been pointed out above, during the period between the two wars the necessary funds for financing housing were to a large extent obtained by the authorities on the open credit market. Under the 1945 Act, however, the local authorities with a few exceptions were required to borrow from an official body known as the Public Works Loan Board, which obtained funds from the Government and furnished loans to the local authorities at a rate of interest approximately equivalent to the rate charged on State Loans. The rate of interest on Government securities has risen somewhat during the past year, but the rate of interest charged to the local authorities has remained fixed, and it may be said that this amounts in effect to a small subsidy.

The essential features of State-aided housing aiming at maintaining fair rents at a time when building costs had increased owing to the war, were crystallised in the Housing Act of 1946. The method of subsidizing house building under the Act was substantially the same as had been applied in various forms during the period between the wars. The State granted a subsidy known as the "annual exchequer contribution", amounting to £16.10. Od. a year, for a period of sixty years, for every house built by the local authorities, conditional upon payment by the local authorities of a similar contribution amounting to one-third of the State subsidy. Special regulations were issued in connexion with subsidies for housing intended for the agricultural population and for dwellings in multiple-family houses built on sites where the ground-rent was high. Although the standard of these newly-built houses tended to be higher than was usual during the period between the wars, it was nevertheless possible with the help of these subsidies to maintain the rents within a limit of 10/- per week.

The Housing Act of 1949 did not involve any substantial changes in the regulations governing the financing of building projects as far as new constructions were concerned. Its main effect was to extend the obligations and powers devolving on the local authorities in connection with housing. Whereas under the provisions of the Housing Act of 1919 the local authorities were required to cater for "working class" housing, the Act of 1949 made little or no reference to



the "working class", so that the obligations incurred by local authorities applied in principle to all classes of the community. The 1949 Act likewise made provision for such things as subsidies for converting and improving existing housing. These are payable also to private persons, as is not the case with new buildings.

The predominance of local authorities in housing production during the post-war period is illustrated by the following table:

Construction of New Permanent Dwellings in Great Britain  
(thousands)

Year	Local Authorities	Private Builders	Government Departments	T o t a l
1946	22	27	-	49
1947	94	32	-	126
1948	188	22	3	213
1949	165	22	4	191
1950	163	26	6	195

Source: Monthly Digest of Statistics

#### Financing Today

As already stated, the conditions governing the raising of capital for financing local government sponsored housing are contained in the Local Authorities Loans Act of 1945, which stipulates that with certain exceptions, local authorities must obtain loans from the Public Works Loan Board. The rates of interest charged on the loans are more favourable than would otherwise be obtainable by most local authorities on the open market. The law also permits local authorities to borrow from funds in their possession (i.e. funds set aside for future debt repayments or as reserve funds) for any purpose for which they are empowered to raise loans.

The interest payable on loans granted to local authorities by the Public Works Loan Board at present (Spring 1951) is as follows:

- |                                       |     |
|---------------------------------------|-----|
| a) for a period not exceeding 5 years | 2%  |
| b) for over 5, but not over 15 years  | 2½% |
| c) for over 15 years                  | 3%  |

These loans must be repaid to the Public Works Loan Board in the form of an annuity (i.e. by equal annual amounts for interest and redemption combined) over the following periods:

- |                               |            |
|-------------------------------|------------|
| a) Loans for roads            | - 20 years |
| b) Loans for supply mains     | - 30 years |
| c) Loans for house building   | - 60 years |
| d) Loans for purchase of land | - 80 years |

Alternatively, the local authorities may spread the repayment of all the above loans over a period of 60 years. At a rate of interest of 3% this would correspond to an annuity of 3.6%. The redemption period in question is the same as in the case of State housing subsidies.

Local authorities must have the permission of the Ministry before obtaining loans from the Public Works Loan Board. This is subject to the Ministry's approval of the cost and standard of the housing concerned, and the conditions for repayment of the loan.

The loans are redeemed by the local government authorities from the so-called "on the rate fund", which means that the financial risk involved in all housing projects on which loans are raised devolves entirely on the local government authorities.

The loans are paid while building work is in progress, so that no special financial arrangements for obtaining credit are necessary during the period of building.

These conditions governing the financing of local government housing projects vary essentially according to the subsidies which are granted by the State and have to be supplemented by local government subsidies. For every house built under local government auspices an annual subsidy of £16,10,0d. guaranteed for a period of 60 years, is payable by the State. For every house in respect of which the

State grants this subsidy, the local authorities must pay a subsidy of £5.10.0. per annum, for the same period, i.e. 60 years. These are the "standard rates" applying to the greater part of local government housing production, and they are based on the assumption that the normal annual cost of a house inclusive of capital costs, repair and maintenance can be broken down as follows:

State subsidy	£16.10.0d.
Local government subsidy	£ 5.10.0d.
Rent	£26. 0.0d.

Exceptions from the "standard rates" are made in special circumstances and to meet particular needs. In the case of houses for agricultural workers or in areas with particularly low rental levels the State subsidy may amount to £25.10.0d. and the local authority's contribution to £1.10.0d. with a supplement of £1.10.0d. from the County Council. Special subsidy rates also apply to dwellings in multiple-family houses.

The scheme for State subsidies for every house built by the local authorities subject to a certain contribution by the latter was based on the assumption that with building costs at their post-war level, rentals within the means of families in modest circumstances would not be possible without some form of subsidy. Houses built by local authorities are, however, not subject to the general rental regulations under the Rent Restriction Acts. Local authorities have discretionary powers to fix their own rents. The current regulations provide that the local authorities must keep a record of all revenue and expenditure in connexion with their dwelling property in a special "housing revenue account". Any deficit in these accounts must be met by extra contributions from local government funds; but any surpluses as assessed at the end of each five year period may, at the discretion of the Ministry, be repaid into the Exchequer and into the local government rate fund in proportion to the respective contributions of each over the past five years. Thus, the local authorities constantly run the risk of being obliged to repay a part of surpluses on the housing revenue account, if the rental levels fixed by them are such as to reduce the amount of their current expenditure for subsidizing housing. As a matter of fact, in recent years many local government bodies, seemingly about half of them, especially in the larger cities, have fixed

rental levels which resulted in deficits on the housing revenue account, with the result that the local government subsidy has exceeded that stipulated in order to qualify for the grant of the State subsidy. In this connexion, it may be mentioned that the local authorities have the right to even out to a uniform level, rents charged for houses built at different periods and subject to varying annual charges. This would appear to afford a possibility, especially for local authorities with substantial pre-war housing resources at their disposal, to use surpluses accruing from the higher rents charged for housing built at an earlier period, for providing further subsidies for new housing.

If the loan charges and subsidies are in the form of an overall assessment of total capital costs for housing built under local government auspices, it is plain that the results will differ according to the fluctuations in those costs. If the standard subsidies (£16.10.0d. + £5.10.0d. = £22.0.0d.) and a production cost of £1,000 (capital charge without subsidy = £36.0.0d.) are taken as a basis of calculation, the net capital cost will be found to be 1.4%, while if the production cost is £1,500 the net capital cost will be 3.2%. In this connexion it should be borne in mind that, as already stated, the local government subsidy is in many cases higher than that calculated here.

Since 1949 State subsidies have also been obtainable for the conversion and improvement of existing houses. Of the calculated annual loss on the capital expenditure incurred for such purposes the State pays three-quarters and the local authority one-third (sic) for a period of twenty years. Under the Act of 1949, the local government authority is also empowered to grant a subsidy to private property-owners, equivalent to half the cost of conversion and improvement. The purpose of the conditions attaching to such subsidies is to ensure that for a period of twenty years, the houses so converted and improved and used by persons other than the owner, shall be let at a rental not higher than that assessed by the local government authorities.

As indicated above, only a small proportion of the newly constructed dwellings have been built by private enterprise. For these no subsidies are payable. Under the Act of 1949, however, local authorities have the right in certain

circumstances, to furnish credits to a maximum amount of 90% of the value, to private individuals for the purpose of purchasing, building or converting houses, or to provide suitable guarantees for loans made to private persons by building societies. The rate of interest charged on such local government loans is  $\frac{1}{4}\%$  higher than that paid by the local authorities on loans from the Public Works Loan Board, and the period of redemption is 30 years. These local government facilities, do not, however, appear to have been utilized to any great extent.

Housing associations have made only a small contribution to housing production. Subject to the permission of the Ministry, these too may obtain similar financial support from local authorities. Unlike private individuals, housing associations may also obtain loans from the Public Works Loan Board covering a period of 50 years, at the same rate of interest as local authorities. If local authorities provide suitable guarantees, such loans may be granted to cover 90% of the costs. Furthermore, subject to the permission of the Ministry, a housing association which has concluded agreements with local authorities regarding types of houses, rents and choice of tenants may obtain the same State subsidies as the local authorities themselves.

## Chapter XXII

### S W E D E N

In a description of the methods and technique of financing housing in Sweden, stress must be placed first upon certain general characteristics of demographic, economic and social development.

In Sweden, industry is relatively young, like the towns themselves. While, as late as 1870, three-quarters of the population gained their livelihood from agriculture and related industries, the agricultural population at present represents only about one quarter of the whole. If industrialization has been late in Sweden, its rate of growth has been correspondingly increased. While the urban population in 1870 formed only 13% of the total, today nearly 60% of the population lives in urban districts. Stockholm was then alone in having more than 100,000 inhabitants. In two other towns, the population was more than 25,000. The total population of the towns has increased six-fold during the last 80 years, chiefly because of a considerable influx of country dwellers into the towns.

Running parallel with industrialization and the development of the towns, there has been a rapid rise in the level of the general standard of living, which, in comparison with the average in Western Europe, was relatively low. This advance has been made possible by the fact that, unlike her neighbours, Sweden has succeeded in escaping entanglement in the two world wars.

The winter, which is very severe in Sweden, requires weather-resistant dwellings, well insulated against the cold; the cost of heating accordingly constitutes in this country a more important factor than in warmer countries.

As has already been stated, urban development, although proceeding at a constantly increasing rate, began relatively late, so that existing houses, so far as concerns the equipment and quality of reasonably well constructed buildings, are of recent date. About half of present-day urban dwellings have been built since 1930. For that reason there scarcely exists any of the slum problems which occupy so large a place in more highly industrialized countries.

While the standard of living in general rose fairly rapidly, housing standards in certain respects remained stationary. At the time when the standard

of living was still fairly low, most houses were tiny. Then in the most favourable cases, three-quarters of the population lived in houses containing two rooms and a kitchen, and in the towns, half of those in the same circumstances had only one room and a kitchen. The delay in the rise of housing standards in terms of habitable area can be explained by the extremely high level of rents during the inter-war years, due in part to the repeal of the regulation of rents put into force during the first world war. The target of housing policy in recent years has been chiefly to increase progressively the dimensions of houses; and present-day housing policy is directed towards building flats containing 2 - 4 rooms and a kitchen.

During the first year of the recent war, house-building underwent a severe crisis caused by a sharp increase in interest rates, other financial difficulties and a progressive increase in building costs, the result being a general housing shortage. The crisis was so well overcome by the aid of subsidies that during the last years of the war output, despite shortage of labour and of building materials, was maintained at a high level. After the war, this level remained high, although limited by the need for obtaining building licences. Since 1939, in all nearly half a million houses have been built. In addition, in rural areas, a considerable number of buildings have been reconstructed and modernized.

Despite all this, it has not been possible to reduce the shortage of houses in urban areas because of the enormous expansion of urban communities between 1940 and 1950. Indeed, in the towns the increase in population has, during this period, been twice as great as in the ten previous years and nearly four times greater than from 1920 to 1930. This increase is attributable partly to immigration from other countries, but especially to an increase in the marriage rate and a decrease in the death rate and to the influx of country dwellers mentioned at the beginning.

Parallel with the great expansion of industry and of urban municipalities, there has been a considerable volume of investment during the post-war period. Because of the shortage of labour and of building materials, and in order to

combat the effects of inflation, building has been controlled. The output of houses has been less in recent years than during the early post-war years, this being a result, not of financial restrictions, but of direct regulation by building licences.

Increases in the cost of building that have taken place in the last year are due primarily to the cost of wood, iron, fuel and wages. They have created a critical situation, which demands either increased subsidies or an increase in rents, or a combination of these two measures.

### I. Financing of building

Credit during building operations. Short-term financing of building is carried out chiefly by the commercial banks. Interest on bank credits is 4 to  $4\frac{1}{2}\%$ , to which an additional charge of 1% is added. The local authorities stand surety to a certain extent for building credits, in which case the rate of interest is lower,  $3\frac{1}{2}\%$ . Savings banks and insurance companies also grant loans during building operations in order to finance the undertaking; these loans are later converted into definite mortgage loans. In the matter of State loans for small working-class houses, advances can be given on the surety of the local authorities.

Before the war, house-building was for the most part financed by private credit institutions and by private persons. The chief private institutions providing credit for building were the savings banks, the commercial banks and the insurance companies.

The State and the local authorities nevertheless took a certain share in financing building. Since 1905 the State has granted loans on favourable terms for the financing of small rural working-class houses either tied or not, with a view to combating emigration by permitting people of limited resources to get established in the country.

With the intention of contributing towards the stabilization of the long-term credit market for building in the towns, the Municipal Mortgage Bank (Stadshypotekskassan) was created in 1909. Its purpose was to furnish capital to be used as first-mortgage loans (up to 50-60% of the value of the property) at an interest rate corresponding by and large to that of State bonds. In 1925 there was set up for the same purpose the Housing Credit Bank (Bostadskreditkassan), for the granting



of second-mortgage loans (up to 70-75% of the value of the property). These banks form central organizations for the supply of funds to a number of affiliated local associations. The banks provide the associations with the funds required for their loans by issuing bonds. The associations are cooperative in character. The State has constituted special basic funds as ultimate guarantee for the banks' bonds. The interest on the loans granted by these institutions is tied for 10 or for 20 years. The first-mortgage loan is usually not redeemed, the second-mortgage loan is redeemed in 40 years. The banks guaranteed by the State have in the recent past provided about 10% of housing credits. At certain periods, when the other credit institutions are short of liquid assets, the relative importance of these banks may be enhanced, partly as a result of the support given them by the National Bank in taking up the bonds.

In the bigger towns there are banks guaranteed by the local authorities for the granting of loans for building dwellings on land made available by the municipality.

The principal private providers of building credits are the savings banks, which supply funds by using the deposits made by the public. Probably about two-thirds of the resources of the savings banks are invested in mortgage loans, for the most part in first-mortgage loans, but also to a certain extent in second-mortgage loans. The loans of the savings banks are granted at an untied interest rate at present of  $3\frac{1}{2}\%$  for first-mortgage loans and 4% for second-mortgage loans. An amendment to the law in 1944 enabled the savings banks to tie their loans to a certain extent. The number of savings banks is nearly 500; they are scattered throughout the country except in the most northernly areas. In all, they provide 15 to 20% of building credits.

The part taken by the commercial banks (Affärsbanker) in the financing of house-building consists mainly in the granting of short-term loans during building operations which, when those operations are ended, are exchanged against loans in other credit institutions. The Commercial banks to some extent also grant primary and secondary loans.

The insurance companies play an important part in financing building, especially in the large towns. Their loans are mostly primary and tied for 10 years, but also to a certain extent secondary. The investments of these companies in building form about a quarter of their total resources. They also play a part indirectly in property credit by their purchases of bonds of mortgage institutions.

Besides the institutions mentioned above, housing credits are provided also by certain administrations (e.g. the post office) and by private persons.

Apart from the loans for small rural working-class houses mentioned above (and certain supporting measures taken during the housing crisis from 1917 to 1923), the grant of State housing credits did not amount to very much before the second world war. From 1930 to 1940 a more active housing policy was pursued, its aim being chiefly to give financial assistance for the provision of houses to, and the improvement of the houses of, certain groups of people whose housing conditions were unsatisfactory. The measures taken by the State in this respect have been State loans and grants for the improvement of unsound rural dwellings (since 1933), loans and grants for houses for families with three or more children (since 1935), and grants for dwellings for pensioners (since 1939). Within certain limits, loans have also been made to co-operative building organizations. The number of dwellings built with the financial assistance of the State has nevertheless been relatively small by comparison with the total production of houses, which, especially between 1935 and 1940, has been very considerable.

As a result of the crisis which befell the building industry during the first years of the war, the system of financing has been modified in its essentials. To meet the crisis and to permit the building of dwellings at the level of rents in force, the State has taken over in principle the financing of risk-bearing housing credit through the medium of third-mortgage loans at a low rate of interest, guarantees which themselves permit large loans and a long redemption period. Since the putting into force of this system of State credits, 70% to 90% of the output of houses has been financed by State loans.

It is important to note that these State credits have not reduced the building credits provided by the private credit institutions mentioned above, but have complemented them by providing cheap long-term credits for the higher part of building capital, which previously was covered by costly short-term credits. At present normal financing of house-building is such that first and second-mortgage loans (up to 50-70% of the value of the property) are provided by the savings banks, the insurance companies, the Building Loan Bank etc., and to them is added a State loan as a tertiary credit. These State loans are granted to all categories of undertakings to municipal undertakings, to co-operative organizations and to private concerns. This State financing of house-building on the open market took shape bit by bit between 1940 and 1942. This cheap credit has made it possible to counter to a large extent the increasing cost of building during the war years, the State loans involving control over building costs and rents. Certain complementary measures have also been taken in order to ensure an output of houses without an increase in rents; they are, in particular:

1. A fixed State-guaranteed interest for a period of ten years, for first and second mortgage loans. By the terms of this guarantee, if the rate of interest on the general credit market, and therefore on first and second mortgage loans, exceeds the rate fixed at the beginning, a corresponding reduction is made in the annual instalment due on the State loan. In this way the capital costs of buildings are stabilized and the risks involved in interest fluctuations on the market are done away with. From 1941 to 1945, the interest guarantee was in force for a rate of  $3\frac{1}{2}\%$  for first-mortgage loans, and later for a rate of 3%. The costs to the State involved in the guarantee were very small, the real rate of interest having broadly corresponded to the guaranteed rate. Last year, however, an increase of  $\frac{1}{2}\%$  in the rate of interest has involved the State in guarantee costs for loans granted previously.

2. So-called complementary loans. The increase in building costs during the war years having exceeded what could be combated by State interest-bearing loans, there were established in 1942, with a view to maintaining the level of rents, complementary unredeemable interest-free loans, such loans being therefore in the nature of pure subsidies. This form of loan was chosen in anticipation of a possible rise in the level of rents to such an extent that the complementary loans could later produce

interest and be redeemed. Four-fifths of these complementary loans are granted by the State, one-fifth by the local authorities. At the beginning, the complementary loans were fixed individually for each property (except for buildings consisting of one or two flats), but since 1946 they have been at standard rates (calculated according to the habitable area of the houses), differing in such a way that small localities with low incomes and rents receive higher complementary loans and large localities receive smaller (at Stockholm, no complementary loan has been granted). After 10 years, the complementary loans are reviewed, and a decision taken as to whether they should be totally or partially remitted, or else converted into redeemable interest-bearing loans in the event of the level of rents having risen. This form of general subsidy, as represented by the complementary loans, to prevent the increase in building costs from affecting the level of rents, has, relatively speaking, not been very widely applied. Between 1940 and 1950 such loans represented all in all only 5 to 10% of the building costs (including the value of the sites) of new dwellings. The principal means whereby the level of rents has been maintained have been cheap interest-bearing tertiary loans, control over building costs and rationalization of building. The increase in the cost of building last year has, however, as already pointed out, created a fresh situation which necessitates a choice between a rise in the level of rents and an increase in subsidies.

The financing measures adopted during the war, which were made necessary by the crisis at that time, were consolidated and extended during the years immediately following the war with a view to bringing about a progressive increase in housing standards for the majority of the population. The second part of this study gives an outline of the present situation, which, however, in view of recent developments will shortly require modification.

## II. Conditions at present governing financing

A small proportion of the houses built are financed without resort to State loans. As far as individual houses are concerned, this applies especially to big properties. The most favourable terms for State loans are applicable only up to certain limits (up to the present 140 sq. metres; in the future approximately 115 sq. metres). State loans are also granted to larger properties, but on terms which are much the

same as for financing through private sources. As far as apartment houses are concerned, certain categories cannot benefit from State loans, for example particularly well-situated properties at high rentals, properties containing a large proportion of shops, buildings built by industrial concerns to provide accommodation for their employees. For these categories it is very difficult to lay down any general rules concerning financing.

In the majority of cases, consisting of ordinary dwelling-houses, where recourse is had to State loans, the method of financing depends on the terms of those loans. The rules applied to houses intended for several families and those to houses for a single family (with which are included houses for two families) differ in certain respects, and it is preferable to study them separately.

1. Loans and grants for multi-family houses

Tertiary loans for multi-family houses may be granted to various categories of undertakings, these being divided into three groups in respect of the terms of the loans: municipal undertakings, co-operative undertakings and private undertakings; certain special rules exist also for industrial undertakings which build and manage houses for their employees.

a) Municipal (or public) undertakings are characterized by the fact that the local authority exerts a decisive influence in the administration of the undertaking by nominating the majority of the board of directors and by taking part responsibility for any losses resulting from the administration of the property, losses due to bad management being in principle borne by the local authority and losses due to economic risks (periods of crisis, alterations in rent etc.) being borne to the extent of 4/5ths by the State and 1/5th by the local authority.

State tertiary loans to municipal undertakings may be as much as 100% of the value of the property.

b) Co-operative undertakings, affiliated for the most part to one of the two large co-operative organizations active throughout the whole country and created by associations of tenants and by trade unions of building workers, are characterized by the fact that the building is the property of an association whose members reside in it, each of whom possesses his own flat with a well-established right of ownership.

These members pay down a sum corresponding usually to 5% of the value of the flat, and when they sell it they are entitled to receive their share of the money paid back on the flat.

Tertiary loans may be as much as 95% of the value of the property.

c) Private undertakings are variable in nature and in importance; they may consist of large groups of building contractors or of small contractors. The tertiary loans they can obtain may reach 85 to 90% of the value of the property, the mortgage limit being for the most part higher for small contractors with little capital.

Co-operative municipal undertakings, and to a considerable extent co-operative undertakings also, chiefly build large buildings, which are frequently erected in stages over a number of years and are equipped with various common services (large central heating plants etc.). When the buildings are erected, they are managed by a single administration. Private undertakings are responsible for the majority of small dwelling houses.

Undertakings set up by industries useful to the country's economy for the purpose of providing their employees with dwellings may procure third-mortgage loans up to as much as 95% of the value of the buildings if the industry concerned stands surety for the loan granted up to 85 to 95% of the value.

Except for the limit of the higher mortgage, the financial conditions applying to the different categories of undertakings are on the whole identical. These general conditions are as follows:

a) First and second-mortgage loans are granted by private credit institutions, as mentioned above. Normally 70% of the value may be obtained in the public market. In the event of financial difficulties affecting private property-credit institutions, the third-mortgage loans granted the State may be increased to cover as much as 60% of the value for buildings containing several flats, according to the rules applied so far; they may also, under an amendment adopted this year, be granted in respect of a lower limit, after special examination of the case.

b) Interest on first and second-mortgage loans is, as already stated, guaranteed, at 3% in the case of the former and, generally, at 3½% in the case of the latter.

As interest on State bonds is at present  $3\frac{1}{2}\%$ , those rates of interest involve a certain element of subsidy because of the lower interest rate allowed equally to all categories of undertakings.

c) Interest on third-mortgage loans is 3%. This rate has been fixed to correspond in principle with that of the fixed loans of the State, which, from 1945 to 1950, was 3%. At present interest on third-mortgage loans departs from the general principle, in that it is too low.

d) Third-mortgage loans are repayable in 40 years. This fact, taken in conjunction with the rules at present in force for the repayment of first and second-mortgage loans means that 0.75% of the entire building capital is paid back annually. The annual instalment is therefore 3.75%.

(Private undertakings have to pay back slightly more in the early years on account of the fact that in that period upkeep costs are low and the building therefore shows a surplus greater than the normal one over a long period.) Upkeep expenses normally constitute 3% of the value (including heating at "peace-time prices"), so that the annual rent is 6.75% of the value of the building.

e) In addition to third-mortgage loans, all categories of undertakings may obtain the complementary loans already mentioned, which vary according to the different urban groups. In those localities - chiefly in the north of the country - where these loans are greatest in extent, they enable a reduction to be made in rentals fixed in accordance with the terms of the third-mortgage loans, a reduction which nevertheless does not amount to as much as 10%.

## 2. Loans for one-family houses

In Sweden, buildings for a single family practically always belong to the family occupying them (with the exception of houses for agricultural workers). Loans for the building of such houses therefore generally constitute the financing of "home-ownership". Unlike current practice abroad, it is very rare in Sweden for one-family houses to be rented. Ordinarily, the initiative in the building is taken by the future owner of the house, his family very often taking part in the work of building.

State loans for this category of house may be as high as 90% of the value of the building. When the future owner takes a share in the work he can often have a house of his own built without having to supply more than a comparatively small amount of the capital himself.

Generally 50% of the capital required is procured by loans in the public market, chiefly from the savings banks. Interest on the first-mortgage loan is guaranteed at 3%, as in the case of buildings with several flats. When loans are unobtainable in the public market, a state of affairs that happens most frequently in the most northerly areas of the country, a State loan may be granted "from the bottom up".

Interest on a State loan is 3%, and the redemption period is 25 years, which corresponds to an annual instalment of 5.7%. As the first-mortgage loan is sometimes not paid back while the State loan is still in being, or as sometimes small instalments are paid back right from the beginning, the annual instalment for the whole debt on the building usually varies between 4 and 5%. Single-family houses constructed with the aid of State loans (maximum limits for habitable area) enjoy a capital subsidy corresponding to the complementary loans granted to multi-family buildings in the shape of exemption from interest and repayment for a part of the State loan, fixed at 4,000 kr. per building. Before the recent rise in building costs, this sum represented 12 to 15% of the cost of building an ordinary single-family house. If calculated for the whole capital (excluding the contribution of the individual concerned by his share of the work or by his capital), the annual instalment then represents between 3 and 4%.

### 3. Special subsidies for house construction

There are special loans in the nature of subsidies for new buildings and for the improvement of dwellings for agricultural workers and the equipment and modernization of old rural dwellings. By raising progressively the standard of rural housing through State financial aid, an effort is being made to bring it up to the same level as town housing.

The problem of housing for the aged has also given rise to special measures. The State makes grants to local authorities, which build dwellings for rent at a very low rate to old age pensioners.



A very considerable factor in the development of housing conditions is the giving of grants by the State to enable families with very young children to benefit from rent reductions (family accommodation grants). These grants, on a parallel with the cheap loans for house construction, form the chief means of combating in the long run the small size of dwellings and of improving general housing standards. At present these grants are given to families with at least two children under 16 years of age and whose income is less than a fixed amount, the latter being lower for large families than for small. The income ceiling is fixed in such a way as to cover the great majority of families with ordinary incomes. These grants consist of a fixed amount of 130 kr. per child in the family (higher grants may be secured for single-family houses, and are tied to a fixed grant for each flat, a grant originally established because of the increase in the price of fuel. These grants are not paid out in money, but in the form of a reduction in the rent or in the annual instalment when the house belongs to the person occupying it. To qualify for such grants, it is essential that the dwelling fulfil certain conditions as regards habitable area and equipment (inter alia, central heating and a bathroom). For State financial reasons, the grants have so far been limited to houses built after 1947 and to older houses already enjoying grants. These family accommodation grants are chiefly intended to ensure that under new building programmes the housing needs of families in the lowest income groups and with children to bring up are not neglected. The relative size of these grants is such, for example, as to enable a family with three children to benefit by a rent reduction of almost one-third, and a family with more than three children to benefit by a rent reduction of nearly half, etc. Whatever the type and size of their families, rent reduction grants are also given to persons with very small incomes. These grants amount to 3 kr. per square metre of habitable area, of which the State pays 2 kr. and the local authority 1. This grant corresponds to 10-15% of the rent in new buildings of ordinary habitable area. It is usually granted only to accommodation in buildings administered by municipal undertakings.

To summarize the loan conditions and the subsidies towards the full financing of the costs of the chief part of housing output brought about with the aid of State loans, it can be said that these costs vary considerably, chiefly in respect

of family accommodation grants. A characteristic feature of Swedish housing policy is that subsidies are to a great extent granted to families with children to bring up, so that they form an addition to general children's allowances. In the case of a large family the amount of the loans and the conditions of the subsidies which it enjoys may be such that its accommodation costs it nothing. When individuals enjoy neither family accommodation nor other special grants, but when their housing expenses are determined by State loans and general subsidies (subsidies formed by the complementary loan for self-owned houses) these expenses amount to 3.75% in the case of multi-family buildings and 3-4% in the case of single-family buildings. Expenses are more variable in the case of the smaller proportion of house construction carried on without recourse to State loans.

# Chapter XXIII

## SWITZERLAND

Before studying the methods and techniques of financing housing in Switzerland, it will be useful to have a brief sketch of:

- I. Savings and the different forms of saving
- II. Rents
- III. Legislation to encourage the building of houses.

### I. Savings and the different forms of saving

1) The savings habit is of long standing and very widespread among the Swiss people. They make their savings available to public and private banking institutions and to the public authorities in the form of sight deposits or of short- or long-term investments or by subscribing to loans. The Swiss financial market is on the whole very liquid and is marked by an almost constant decrease in the rates of interest on capital. Those facts are illustrated by the following extract from the Swiss banks' balance sheet for the years 1944 to 1949 (Table 1) and by the statement of the position of loans (in the form of bonds) raised by the public authorities and banking houses for 1938 and 1944-1949 (end-of-year figures) (Table 2).

Table 1

Extract from the Swiss banks' balance sheet (in millions of Swiss francs)					
Year	Savings bank deposits	Deposit accounts	Bonds and cash vouchers	Loans	
				Bonds	Mortgage bonds
1944	6407	751	3818	529	736
1945	6605	755	3837	475	736
1946	6903	794	3956	459	784
1947	7239	856	4024	505	854
1948	7469	884	4174	587	1050
1949	7915	967	4438	570	1061

Table 2

Total amount and average yield of loans in the form of bonds raised by the public authorities and banking institutions since 1938 (end-of-year figures)										
Year	Confederation		Cantons		Communes		Bond Offices		Banks	
	Total in millions	Yield %	Total in millions	Yield %	Total in millions	Yield %	Total in millions	Yield %	Total in millions	Yield %
1938	2185	3.83	1656	3.90	992	3.87	638	3.68	634	3.95
1944	6244	3.21	1593	3.63	901	3.57	724	3.41	529	3.55
1945	7290	3.20	1555	3.54	871	3.55	724	3.35	475	3.46
1946	7826	3.20	1582	3.48	829	3.51	772	3.27	459	3.42
1947	7423	3.19	1604	3.44	824	3.47	837	3.25	505	3.29
1948	7032	3.22	1574	3.44	880	3.42	1031	3.26	587	3.31
1949	6472	3.30	1474	3.37	933	3.42	1051	3.25	570	3.28

The importance of mortgage loans in Switzerland is clearly shown by the accounts of Swiss finance houses. The large amount invested in mortgages is mainly due to the confidence inspired by the Swiss real estate system and our banking houses.

Table 3 shows the totals for mortgage loans for the years 1937 and 1949.

Table 3

Breakdown of mortgage loans with Swiss banks according to rates of interest in 1937 and 1949 (in millions of Swiss francs and per cent)				
Rate of Interest %	1937		1949	
	Total	Per cent	Total	Per cent
.3	-	-	59.8 <sup>a)</sup>	0.53 <sup>a)</sup>
$3\frac{1}{4}$	-	-	29.4	0.26
$3\frac{1}{2}$	62.1 <sup>b)</sup>	0.74 <sup>b)</sup>	8614.2	75.65
$3\frac{3}{4}$	58.7	0.70	1949.8	17.12
4	5256.4	62.64	555.0	4.88
$4\frac{1}{4}$	1877.2	22.37	116.9	1.03
$4\frac{1}{2}$	675.2	8.05	49.2	0.43
$4\frac{3}{4}$	246.7	2.94	7.1	0.06
5 and over	215.5	2.55	5.3	0.04
Total	8391.8	100.0	11386.7	100.0

a) and below 3%

b) and below  $3\frac{1}{2}$ %

2) Expenditure by the Swiss people on various types of insurance policies taken out by them is one of the most important forms of saving in Switzerland. The large reserves in the hands of private insurance companies and public provident institutions provide a steadily increasing proportion of the money lent on mortgage in Switzerland and, hence, for financing building. The total paid in insurance premiums in the years 1944-1948 is shown in the table below (in millions of Swiss francs).

Table 4

Expenditure on insurance policies taken out by the Swiss since 1944 (in millions of Swiss francs)					
Branch of Insurance	1944	1945	1946	1947	1948
Life	315.4	340.2	373.8	378.9	393.6
Old Age	-	-	-	-	577.8
Pension Funds	225.1	237.5	244.1	254.7	278.0
Others	463.5	520.7	593.8	682.1	761.4
Total	1004.0	1098.4	1211.7	1915.7	2010.8

## II. Rents

1) The rents for flats are on the whole high enough to provide an economic return on the capital invested, and generally speaking they represent from 10 - 25% of the tenants' income, on the average to 20%.

2) Since 1936 rent control has been exercised under the Federal Council decree of 27 September 1936 concerning extraordinary measures in respect of the cost of living combined with monetary measures.

3) The order of the Federal Department of Economy of 2 September 1939 relating to the cost of living and measures to protect the market froze the rents in force on 31 August 1939.

For rent fixing, the following rules are at present in force:

- a) For houses built since 1 September 1939 without financial assistance from the public authorities, the rule is that the rents should cover the actual and legitimate costs and charges.

- b) For new dwellings ready for letting after 1 September 1948, and in order to encourage private building, a gross yield of 6.8% on the gross construction costs is permitted without a detailed statement of the expenses being required.
- 4) For houses built since 1942 with the financial assistance of the public authorities, the rents are fixed in each case by the authorities providing the subsidies.

### III. Legislation to encourage house building

1) The building and financing of houses have always been in the hands of private initiative, and the public authorities have only intervened in this field during the housing shortages following the two world wars of 1914 and 1939. Only the laws on land improvement provide for regular budgetary appropriations to help finance the construction of rural settlements and accommodation for agricultural workers.

2) The legal basis for the special measures taken by the public authorities during and after the second world war to encourage the building of houses was: the decrees issued by the Federal Council under its emergency powers, and from 1948 onwards the federal decree of 8 October 1947 under article 34 quinquies of the constitution on family security.

The benefits of that decree were conferred not only on Swiss nationals but also on foreigners living in Switzerland.

3) After the housing shortage had become much less acute, the Swiss people rejected by the referendum of 29 January 1950 the proposal to prolong the measures to encourage the building of houses, and subsidies were discontinued after 31 December 1949.

4) A few cantons and towns, where the housing shortage is still somewhat serious are continuing to encourage house building by grants and loans or by giving housing allowances to needy tenants. These allowances have nothing to do with the measures taken under the public assistance plan.

This brief sketch shows that the public authorities no longer play any part in house building except insofar as rent control is concerned, and that in the future as before the war the task of keeping the balance between supply and demand as regards housing will be left almost entirely to private initiative.

A clear picture of the policy adopted for financing housing can be obtained by studying:

- (a) the financing of new housing;
- (b) the financial assistance formerly given by the public authorities,

A. The Financing of New housing

1) Capital for house building can be obtained from a number of banking institutions which grant credit for building and mortgage loans. These are:

- the cantonal banks,
- the public land banks,
- local land banks,
- commercial banks,
- savings banks, and to a growing extent insurance companies.

Two official institutions, the Central Mortgage Bond Office of the Swiss Cantonal Banks and the Mortgage Bond Bank for Swiss Mortgage Loan Institutions, grant only a few mortgage loans direct; they mostly confine themselves to financing their members (the cantonal banks and the official land banks) by providing them with long-term loans at a fixed rate.

2) Building credits are provided by the public and private banks and the insurance companies in the form of short-term loans. Security for re-payment of the loans is provided by the borrower signing a first mortgage on the land on which it is proposed to build. The money is made available by the lending institution as the work progresses; it has to be paid back in a lump sum at the time of funding when the building is finally completed.



3) The building credit is then replaced by a mortgage, mortgage bonds or notes of hand; first mortgages usually cover up to two-thirds of the average value after capitalization of the income and the intrinsic value of the building; second mortgages cover up to 85% of this average value.

First mortgages are granted for an unlimited period without additional security being required; second mortgages are usually granted without additional security, but must be redeemed within a period varying from 10 to 20 years. Third mortgages always have to be redeemed within a fixed period and require additional security in the form of share or other certificates or life insurance policies offered as cover or actually deposited.

Plans for financing new housing are usually based on the building costs being covered as follows:

Money provided by the builder	10 - 20%
First and second mortgages	55 - 60%
Funds from other sources or third Mortgages	20 - 35%

B. The financial assistance given by the public authorities

The Confederation, as is shown by the measures taken by the Federal Council and the Federal Parliament, chose subsidization as the best means of encouraging house building to overcome the housing shortage during and after the second World War.

1) Federal Council Decree of 30 June 1942 concerning measures to relieve the housing shortage and encourage building (Action 1).

This decree provided for federal grants of not more than 5% for houses built by private persons; such grants were made on condition that the canton contributed at least twice as much (the commune possibly providing part of the sum). Federal assistance for the building of dwellings by communes and co-operatives for public utility purposes amounted to a maximum of 10% and the canton had to contribute (Possibly jointly with the commune) at least as much as the Confederation.

Federal assistance was only to be given for simple but completely hygienic houses.

The net cost of the building per habitable room was not, as a general rule, to exceed:-

	Flats with 2 habitable rooms	Flats with 3 habitable rooms	Flats with 4 or more habitable rooms
In urban communes	9,000	8,500	8,000 Swiss francs
In rural communes	8,000	7,500	7,000 Swiss francs

Preference had to be given to buildings of a social character, because of the need to find accommodation for large or poor families.

It was laid down that the subsidy was to be paid back in full or in part, should a house built with federal aid be turned over to purposes other than those mentioned in the decree, or be sold at a profit. That obligation had to be mentioned in the landed property register as a public law limitation on the freehold.

Under this decree, which remained in force from 30 June 1942 until 31 October 1945, the following results were achieved:

New subsidized dwellings.

Total Number of Dwellings: 20.516

of which:

43.7%	were built privately
53.3%	by co-operatives
3.0%	by communes

Total cost of the buildings: 607 million francs

Total paid in subsidies: 136.7 million francs

- 2) Order No. 3 of 5 October 1945 governing the creation of employment during the depression following the war (Encouragement of housing construction). (Action II).

Upon the cessation of hostilities building activity decreased while thousands of building workers returned from active military service. The housing shortage was aggravated by the increase in the number of marriages; and building costs rose rapidly. The Federal Council accordingly decided on 5 October 1945, changing as little as possible the system of subsidies then in force, to provide further incentives to house building by increasing the amount of the subsidies considerably in order to keep rents at a fair level, despite the increase in building costs.

For housing construction in general the rate was raised to a maximum of 10% of the total expenses, exclusive of the cost of buying the land on which to build, conveyance charges, compensation due to third parties, interest on loans and taxes. For cheap housing of a social character, the rate was increased to a maximum of 15%. Federal aid was made dependent on the canton providing at least an equal amount rising gradually to twice the Confederation's contribution.

The subsidy was based on the actual building cost per habitable room. There was a ceiling limit of 10,000 francs, and amounts in excess of that limit per habitable room were not taken into account for Federal aid.

The order remained in force from 1 November 1945 to 31 December 1947, and the results were as follows:

New subsidized dwellings:

Total number of dwellings

39,507

of which

56.5% were built privately

40% by co-operatives

3.5% by communes

Total cost of the buildings:

1,499 million francs

Total paid in subsidies

387.9 million francs

- 3) Federal Decree of 8 October 1947 concerning measures to encourage housing construction (Action III).

Towards the end of 1947, there was a marked improvement in the housing situation, and the Federal Council decided that the time had come to reduce the financial assistance given by the Confederation to a level suited to the Federal finances, since the cantons and communes share the primary responsibility for ensuring that sufficient accommodation is available for the population.

The Federal subsidy amounted to 5% of the total building costs, including the cost of fittings, but exclusive of the cost of buying the land, conveyance charges, compensation due to third parties, interest on loans and taxes. For dwellings for large or poor families the Federal subsidy was increased to 10%. It was laid down that the canton's contribution (possibly made jointly with the commune) should be at least twice that of the Confederation.

The limit relating to the actual building cost per habitable room for qualifying for Federal assistance was raised to 10,500 francs. The cost of fittings was included in this figure up to 4,000 francs per dwelling unit for one family houses and up to 2,000 francs per dwelling unit for each building for several families.

This Decree remained in force from 1 January 1948 to 31 December 1949. It produced the following results:

New subsidized dwellings:

Total number of dwellings	27,236
of which	53.6% were built privately
	44.5% by co-operatives
	1.9% by communes
Total cost of the buildings:	1,024 million francs
Total paid out in subsidies:	228.8 million francs

The grant of Federal aid was subject inter alia to the following conditions:

The rents for subsidized dwellings are calculated as a percentage of the net cost of construction. The net cost of construction is obtained by deducting from the gross cost the total amount actually paid in subsidies by the public authorities and third parties. The yield on the capital actually invested, i.e.

the net cost of building, varies with the actual expenses, but in principle it is limited to a maximum of 6%. with an allowance of not more than 2% of the gross cost of construction, exclusive of the cost of the land, for upkeep, depreciation, public charges, etc.

Only the following are accepted as tenants of dwellings built with financial assistance from the public authorities:

a) in buildings of a social character:

families whose gross income is less than 9,000 francs  
a year + 500 francs for each dependent child;

b) in buildings of a general character:

families whose gross income is less than 18,000 francs  
a year + 500 francs for each dependent child.

Families with an income in excess of 18,000 francs + 500 francs for each dependent child are not allowed, as a general rule, to occupy a subsidized dwelling.

### CONCLUSIONS

The financial assistance with housing construction given by the public authorities made it possible:

- 1) to offset the increase in building costs completely, or in any case the amount of invested capital to be written off as a loss once prices in the building industry had become stable. This stimulated building activity and encouraged investment in housing construction.
- 2) to provide dwellings at moderate rents, by reason of the subsidies and the fact that the gross yield on the capital invested in housing construction was limited as a general rule to 6%.

The rules that financial assistance should not be given by the public authorities for building luxury houses and villas for well-to-do owners made it possible to extend the housing campaign to the advantage of large and poor families.

- 3) to ensure that the dwellings would continue to be used for the purpose for which they were built, i.e., primarily for large and poor families, by accepting as tenants only persons with a gross income below the fixed limits.
- 4) to prevent speculation in housing by making it necessary to enter in the landed property register the obligation to pay back the subsidy should a dwellinghouse be sold at a profit or converted to other purposes than those laid down.
- 5) All things considered, this system was best suited to the purposes of the Confederation, and it had the advantage of being simple and clear-cut. Its application required only a small administrative organization to examine reports for subsidies and scrutinise the accounts:

Other systems, such as loans at a low rate of interest or interest free, periodical rent allowances, loans granted against security etc., were examined and recognized to be practicable, but although they would presumably have provided the beneficiaries with the same advantages as subsidies, they would not have cost less in the long run.

The cantons and communes were free to make their contributions in the form and manner they found most convenient, provided they had practically the same effect as subsidies.

- 6) The most difficult problem outstanding is how to do away with the considerable discrepancy between rents for dwellings built before 1 August 1939 and those built after that date without assistance from the public authorities.

Rents for flats in blocks built before 1 August 1939, which are fixed on the basis of the rents in force on that date, are being raised by degrees until they reach a level corresponding to the stabilized construction cost rates, less the inflationary factors due to the war and the present situation.

## Chapter XXIV

### UNION OF SOVIET SOCIALIST REPUBLICS

The Soviet authorities have always attached great importance to housing.<sup>(1)</sup> The legacy inherited from the old régime was outstanding only for the insufficiency in the number of dwellings and the inequality of their distribution. The destruction caused by the first world war made matters worse. Hence, faced with an insistent demand for housing, the Government decided on the nationalization of urban housing, which was put into effect by the Decree of 20 August 1918, and was followed by a redistribution of the available accommodation. But, owing to the prevailing economic disorder, it was impossible to carry out an adequate building programme. It should be added that, until 1921, the new régime pursued a policy of free housing facilities, no charge being made for rent.

During the subsequent period, marked first by the N.E.P. and then by the planned economy, there was, it is true, a meritorious revival of building activity. Urban housing actually increased from 155 million square metres in 1923 to 165 million in 1928 and 225 million in 1939. But the tendency of the five-year plans was to sacrifice housing programmes to investment in heavy industry. "Despite a considerable acceleration in the rhythm of building, the gap between the net additions to the volume of housing and the growth of the urban population was not bridged"<sup>(2)</sup> and the habitable area did not exceed four square metres per head of population. It should be added that for a long time the rent-level acted as a deterrent to building.

The second world war resulted in a catastrophic situation and rapid action was essential. The promulgation of the Decree of 21 August 1943 constituted the

---

(1) The Resolution of the Central Committee of the Communist Party of 23 July 1926 read: "One of the most acute questions is housing, and it must be solved if any improvement is to be effected in the life of the workers".

(2) "The European Housing Problem", published by the United Nations' Economic Commission for Europe.

first step, and 12.8 million sq.m. of housing was built or repaired in towns and 839,000 houses were constructed in the rural districts between 1943 and 1944.

The 1946 - 1950 five-year plan called for the building of 84.4 million sq.m. of urban housing. In order to stimulate building, a Decree of 26 April 1948 established a system under which small plots of land were allotted to individuals for house-building purposes, and building credits were also provided. The aim was to build 12 million sq.m. of housing. After a difficult start during the first two years, new housing amounted to 51 million sq.m. by the end of 1948.

A similar effort was made in rural areas, 2,025,000 houses being built between the liberation and August 1948.

In view of the very special conditions under which this policy was carried out, the legal position in regard to housing should be examined before any attempt is made to study the questions of management and finance.

#### I. The Legal Position in regard to Buildings

The law on real property is a somewhat neglected branch of the Soviet's legal system. The successive enactments, going back to periods when different concepts prevailed, overlap and the need for a new code is recognized by jurists.

On 26 October 1917, the first day of the revolution, Lenin issued a Decree whereby the land became the exclusive property of the State. The scope of this principle, which has been written in to the Constitution of the Union of Soviet Socialist Republics, was made clear by subsequent developments.

The State allots land with a view to its utilization, to State undertakings, co-operatives or private individuals. The users' right is inalienable and transfers are made free of charge. Leases are only permissible in special circumstances. Any infringement of these regulations is punishable by law.

From an accounting standpoint, land is not included among the users' assets, from which it is clearly apparent that it is not an article of trade; on the other hand, buildings constructed thereon and improvements are included in those assets. Buildings may even be privately owned, as is the case with houses built with the assistance of building credits. Such houses can be sold in exceptional cases, but only by the State to the concessionaires.



Land concessions take the form of usufruct. The users retain possession of the land so long as they are able to use it for the purpose for which they received the concession. They may, however, be dispossessed if such a course is in the public interest. The kolkhozy have more extensive rights as the land is granted to them in perpetuity.

In urban areas, the land is administered by the local Soviet which is the allotting authority, but a Department of the Ministry of Agriculture is responsible for the registration of the operations. Outside urban areas the land is administered by the Ministry and concessions are at present being granted in the form of a perpetual usufruct.

In practice the users are in general the local Soviets themselves or State undertakings. Concessions are of particular importance in the case of buildings constructed with the help of building credits.

In country districts, dwelling houses normally form part of the patrimony of kolkhoz families. They are granted, with their surrounding gardens ( $\frac{1}{4}$  to  $\frac{1}{2}$  hectare), not to the individual members of the kolkhoz but to the household (dvor). The right of usage is combined with the participation of those concerned in the work of the kolkhoz. In view of the very special character of this institution and the changes it is now undergoing, it will not be dealt with in this report.

The land in urban areas used for housing, taken as a whole, together with any buildings constructed thereon, constitute the "housing resources" for which figures will be given separately.

## II. Housing Policy

During the first few years of the régime, the national housing resources were badly kept up and there was scarcely any question of expanding them. The main object of nationalization had been to bring about a redistribution of housing. Rents were not collected until 1921.

It was then that the first steps were taken to ensure more efficient up-keep. Individual houses occupied by their owners were "de-municipalized" and returned

to their owners as private property. The first housing co-operative was established in 1925 and most collective buildings became the joint property of their occupiers. Other buildings were erected by industrial, commercial and agricultural undertakings. In 1928 far-reaching concessions were made to private building.

The Soviet experiment with co-operative housing methods was not successful. In the first place, rents remained too low and, secondly, in the eyes of the Government, the system tended to make the population too static, at a time when it seemed very necessary that labour should be mobile. It was considered preferable to link housing very closely to the labour contract. Finally, co-operatives engaged in new building tended to acquire a capitalist outlook, despite the fact that their activities were being financed to the extent of nine-tenths by State loans. With a few exceptions the co-operatives were therefore liquidated by the Decree of 17 October 1937, and their property was transferred to the local Soviets and to the State undertakings.

The new principle underlying housing policy is that housing is fundamentally a tool of industry just the same as any other industrial equipment. Each industry is therefore, in principle, responsible for the housing of its own workers. Housing, moreover, forms part of the labour contract and the right to build their own houses, of which they will become the owners, is, in general, reserved to workers of particular value to productivity (specially trained and shock workers etc.). Lastly, housing is the special responsibility of the trade unions. Building by local Soviets has therefore decreased substantially, though they still own approximately 50 per cent of the older dwellings.

According to the 1946-1950 five-year plan, the breakdown of new building by categories was to be as follows:

- Undertakings and industrial, commercial or administrative services 77%
- Local Soviets 8.7%
- Building by individuals 14%

The trend in favour of building by undertakings is, moreover, in line with the general evolution of the present régime which, during and since the war, has

been inclined to make the undertaking the centre of all services concerned with the wage-earner. This is, for instance, the case in regard to social security where benefits are paid out of funds managed by the local trade unions.

#### The Management of Building Property

A novel system, corresponding to the importance of the work to be done, has been established in the USSR for the management and improvement of housing property belonging to the local Soviets. There are in principle two bodies concerned: a housing board responsible for new building and major repairs together with the related questions of finance, and also for the allocation of housing; and a housing group concerned with day-to-day management.

In small localities these two bodies are combined.

These bodies do not have administrative boards but are directed by an administrator appointed by the municipality. The administrator is solely responsible for administration, the up-keep of buildings, sanitation, fire protection and, in case of war, passive defence<sup>(1)</sup>. His duties include keeping a register of tenants and ensuring that full use is made of the available accommodation.

He collects rents and rates and is empowered to fine the tenants up to 100 roubles without recourse to the courts.

He is provided with a paid staff, including a concierge who has in addition his own responsibilities as, for instance, in regard to the police.

Supervisory bodies are responsible for seeing that the accounts of housing groups and public utility undertakings are properly kept and that the housing is used in a rational manner.

---

(1) Tenants' committees have been set up to assist in the reconstruction and running of buildings. This system, which was initiated at Leningrad, has been adopted by other towns on the recommendation of the Council of Ministers. To a certain extent it represents a return to the principle of the participation of the occupants in the management of the building, the basic principle of the co-operative system.

Housing belonging to undertakings is run on similar lines, and that also applies to the property of administrative services, production co-operatives, social welfare organizations, etc. The various Ministries have a considerable amount of housing at their disposal with a special staff to run it. The local Soviets have, however, a right of supervision over the buildings.

There is still some housing belonging to housing co-operatives which were not dissolved in 1937. These co-operatives operate exclusively with the funds of their members and are mainly concerned with the building of secondary dwellings.

Members of dissolved housing co-operatives who had contributed towards the building of their houses, still retain some security of tenure.

#### The Allocation of Housing

The principles governing the occupation of buildings are laid down in the Law of 17 October 1937. In view of the inadequacy of the existing housing resources, there are very strict regulations to ensure the maximum utilization of the habitable area. The local Soviets have a right of supervision over housing which does not belong to them.

All questions of allocation and, very frequently, of the expulsion of tenants, are regulated through administrative channels and without recourse to the courts.

In the case of housing belonging to the local Soviets, tenants are selected by the housing board. The housing group is only concerned with questions of management. Leases are for a period of five years.

Each occupant has, in principle, a right to a habitable area which, in the case of the Republic of Russia, amounts to 8.5 sq.m. plus an additional 4.5 sq.m. per family. The local Soviets can raise this standard, but it cannot be reduced except by the Government of the USSR. It is not applicable to houses belonging to individuals or co-operatives. Certain persons are entitled to a larger area. They comprise the sick, individuals who have done their country outstanding service (heroes of the Soviet Union, winners of decorations etc.) and, lastly, persons who, by reason of their social position, need more space (generals,

admirals, writers, composers, scientists, managerial staff etc.). Where a flat exceeds the standard size, and comprises independent rooms, such rooms may be requisitioned by the local Soviet, if the tenant has not provided for their effective occupation within a period of three months.

According to recent regulations, persons of different families may not share the same room. An independent room is one that has access to the outside by means of a passage.

Tenants have the right to retain their living accommodation in case of absence for less than six months, or if temporarily employed in the far north or abroad. During the war, those called up retained the right to their dwellings, but that did not apply to workers evacuated to Soviet Asia.

The principle that housing forms part of the labour contract has been repeatedly laid down in Soviet laws and regulations. This principle is applicable both to industrial housing and to some of the housing controlled by the local Soviets. A worker dismissed for disciplinary reasons or leaving of his own accord is evicted from his dwelling. This general rule was laid down at a time when the population was in a state of flux and when it was necessary to take additional measures to bind the workers to their employment. In view of the planning of labour requirements, workers should not, normally, be unemployed and should, therefore, in principle be assured of housing.

Tenants have the right to exchange flats provided they obtain the permission of the institution owning the building.

Tenants may also be evicted if the building becomes unsafe, or in case of systematic demolition under the town planning programmes, adopted for the cities of Moscow, Leningrad, Kiev, Baku and Minsk. In the latter case compensation is payable at the rate of 2,500 roubles per person in Moscow, and 2,000 roubles in the other cities, and the evicted persons are given plots of land on which to build their own houses.

Squatters can also be evicted without recourse to the courts and are liable to prosecution.

### Building and allied services.

The main duty of the above mentioned bodies is to administer existing housing and to plan new building. But building is also nationalised and thus there are two conflicting systems.

The first consists in building by a proprietary body (on its own responsibility). That procedure was largely used in the early stages of the régime and led to great abuse and serious accounting trouble, owing to the difficulty of determining the cost of buildings erected in this way.

Hence it has largely been superseded by the second method, i.e., building by specialized undertakings (podriadtchiki) which arrange for the work to be carried out by contractors. These undertakings are under the direction of the Ministries of Civil Building which have been set up in the republics of the USSR in Europe since the 1941/1945 war.

These Ministries are also responsible for town planning. In this case they work through the Departments of Architecture.

### III. Financing of Housing

#### 1. General characteristics of the economy

Amongst the general principles governing the Soviet economy there are two which account for its originality and distinguish it profoundly from the socialist economies of other countries. The first is the nationalisation of the land and the granting of individual land concessions. The second is the nationalisation of credit and the separation of saving from capital investment.

There is no such thing as long-term credit in the Soviet economy. Investments are normally provided out of an undertaking's own resources. As against this, subscriptions to State loans are treated as revenue. Long-term loans can only be granted for special purposes, such as building and the repair of dilapidated buildings.

Capital assets are nevertheless amortized in the user's books. Part of the amortisation is used for the upkeep of the assets and remains at the disposal of the undertaking, while the rest is earmarked for renewal and paid into a central fund

administered by the controlling Ministry. This industrial depreciation to some extent offsets the absence of financial amortisation. In the case of housing institutions, however, these allowances all go to form a repair fund, and no provision is made for a renewal fund owing to the inadequacy of the corresponding ordinary revenue.

As regards short-term credit, this simply consists in practice in a re-distribution of financial surpluses deposited with the State Bank in current account. The latter uses the funds at its disposal to grant loans to undertakings which are in need of them. The terms of such loans are laid down in detail and conform to a definite plan. This constitutes an important means of controlling undertakings, particularly those that hold large stocks. As against this, housing institutions only make use of short-term credit to meet temporary commitments for repairs, or contributions to repair funds.

Thus everything is strictly planned: building work and short term credit both take their place within the framework of plans prepared in advance and approved by higher authority. The institutions have no freedom of action in financial matters.

#### Banks

It would appear that the banks' activities should in theory be limited to provision of short term credit, but in practice, they are also responsible for the payment, against due authorisation, of the funds needed for financing building operations. In addition they manage the depreciation funds.

The absence of a rational credit system has been one of the main factors holding up building. One of the regime's first measures was, in fact, the outright liquidation of the mortgage banks which had previously financed a large part of the capital investment in building, as they were considered to be instruments of social reaction. As it received no rents and was unable to obtain credit, the housing economy was condemned to stagnation; its meagre budgetary credits were hardly sufficient for the upkeep of the existing houses.

The establishment of specialised banks was considered indispensable, and, as the reconstitution of the State Bank in 1921 was not a sufficient remedy in itself, the first municipal bank was opened at Moscow in 1922. In 1923 the Soviets of the various governments<sup>(1)</sup> were invited to establish banks for financing housing and municipal services (kommunalnye banki).

In the beginning these banks confined their activities to the provision of short term loans, and even the establishment of a central amortisation fund was not sufficient to provide them with adequate resources for investment operations. Nor did the establishment of "special funds for the building of working class houses" with funds derived from various sources, prove a successful means of attaining the object in view. A start was nevertheless made with loans to building co-operatives, local soviets, undertakings and private individuals.

In 1924 the Central Bank for Financing Building and Municipal Services (Tsékombank) was set up, its original purpose being to finance the building of houses by undertakings.

When the credit system was reformed in 1930 that Bank was placed at the head of a network of regional banks for the financing of housing and municipal services, and became subject to the authority of the USSR Minister of Finance. The directors of branch banks are appointed by the executive committees of the regional Soviets in consultation with the Central Bank.

The functioning of this organization was for a long time based on a compromise. Since 1931 the State Bank has been responsible in theory for all short term credit operations, except as regards building undertakings, but, in practice, the regional banks retained important powers in regard to local undertakings. They even performed treasury functions for towns and local communities, having special departments for the purpose. But this function was taken away from them in 1949 and entrusted to the State Bank<sup>(2)</sup>.

- 
- (1) The governments, i.e. the former administrative districts, were abolished and replaced by a smaller number of regions (or provinces).
- (2) The State Bank is also responsible for carrying out the functions of the regional banks in places where they have no branch office.



Thus the USSR has a special system of banks handling investments in housing and municipal services. This fact is worthy of note, even though financing methods are very different from those obtaining in other countries. In France for instance, such financing is the function of purely financial institutions (the "Caisse des Dépôts et Consignations" and the "Crédit Foncier").

It should be noted, however, that even the existence of a special system of credit institutions did not suffice to supply the necessary resources for the building programmes required to meet a serious housing shortage. Such programmes did not really get under way in the USSR until adequate appropriations were provided for housing in the annual budgets, i.e. from about 1935 onwards.

### 3. Planning of Capital Investment

The planning of capital investment is the keystone of economic planning in the USSR, but the rules specifically relating to house-building are few in number.

Plans cover periods of five years, one year or three months. The Five-Year Plan only lays down the main objectives, and, from the technical point of view, the blueprint for the actual carrying out of projects is provided by the annual plan. The quarterly plan is, however, of importance from the financial point of view.

All capital investment should, in principle, be provided for under plans. But a certain amount of unplanned work can, nevertheless, be performed, such as house-repairs and also house reconstruction costing not more than 10,000 roubles. Some other kinds of unplanned work are also permissible.

The fact that such work is not included under a plan does not, however, mean that it can, in all cases, be decided upon by an undertaking on its own responsibility. Expenditure of from 100 to 500 roubles requires the authorization of the director-general of the ministerial department concerned, and any expenditure above 500 roubles must have the sanction of the responsible minister himself.

All other projects are included in the annual plans drawn up within the framework of the Five-Year Plan. The annual plans are divided into quarterly sections.

The volume of work to be undertaken is laid down in the annual plan approved by the USSR Government and apportioned among the various Federated Republics. The governments of the Federated Republics, in their turn, distribute their share among the various regions and the executive committees of the regional soviets finally divide up this allocation among the various projects in view.

All projected work is included in the lists (titoulmye spiski). The more important projects<sup>(1)</sup> are included individually in lists approved by the Council of Ministers of the Soviet Union or of the Federated Republic, as the case may be. Other projects are approved by the local Soviets.

#### 4. The financing of capital equipment

The necessary funds are obtained from the following sources<sup>(2)</sup>:

##### (a) Budget appropriations

These comprise the sums allocated annually for housing programmes in the budgets of the public authorities. That was, and perhaps still is, the main source of funds. Too much emphasis should not, however, be placed on the local aspect, as in the USSR local finance is closely linked with the finances of the Union and of the various republics, as a result of the planned distribution of revenue.

##### (b) Profits from undertakings

These resources, which long remained at a low level, owing to the failure of many undertakings to make a profit, are beginning to assume some importance in the case of building carried out by industry.

##### (c) The mobilisation of existing resources

This covers the utilization of surplus materials originally set aside for other building work.

- 
- (1) In the case of housing, projects costing more than 2 million roubles.
- (2) There is no war-damage legislation in the USSR, but special assistance in the form of credits in cash or in kind seems to have been provided for the reconstruction of kolkhozy in the devastated areas.

(d) Savings in regard to work carried out by an undertaking itself

Such work is recorded in the balance-sheet at an average figure, which varies according to the experience of the contractor.

The sources to be drawn upon for each project are determined and reported to the regional banks by the ministries and the executive committees of the regional soviets.

The regional banks release the funds against due authorization and pay them over to the contractors.

In the Soviet Union the drawing up of projects and the planning of work is a relatively complicated process and was, until recently, a very costly one. A great effort was made in 1950 to reduce expenditure under this head, and, amongst other things, it was decided that with a view to ensuring better control, expenditure on technical studies should be included in State budgets.

5. The Utilization of Housing Resources

Soviet writers stress the need for the greatest possible flexibility in the management of housing property, the rules for which should not be made too rigid.

The proprietary housing organizations are responsible for drawing up an operating budget for all housing property belonging to a local authority or an undertaking. These budgets are divided into two parts - the one includes expenditure for maintenance and repairs on the debit, and revenue from rentals on the credit side; while the other includes letting charges on the debit side and amounts recoverable from tenants on the credit side.

In the case of housing administered by local soviets an overall budget is prepared for the whole of the authority's house property.

The budgets for the housing groups are approved by the next higher authority, which is the local Soviet insofar as the houses belonging to it are concerned. The overall budgets are approved by the regional Soviet at the same time as the municipal budget. The deficit of one group cannot be offset by the surpluses of others.

Where a group does not keep its own accounts, all receipts are credited to the local authority's budget with the exception of the levy made on rents of non-dwelling premises which is used to finance repair work, through an extra-budgetary service.

Expenditure for upkeep and repairs is carefully checked. The Soviets apply to housing the system commonly used in industry which consists in establishing standard costs per unit of production, in this case upkeep costs per sq. m. of habitable area. Standards are also laid down as regards staff employment.

Proprietary organizations are not allowed to borrow money to supplement their working capital. Trial balances are struck from time to time.

In calculating rents only the actual habitable area is taken into consideration; kitchens, passages, lumber rooms etc., are not included.

There is an average standard of 9.2 sq.m. per occupant and this differs from the sanitary standard. Where the available space is below that standard, normal rent is paid; when it exceeds the standard, three times the ordinary rent is charged for the excess.

Rents for all dwellings are fixed by the local Soviets. They range between 30 and 40 kopecks per sq.m. Precise rules are laid down for rent calculation, allowance being made for the condition of the premises. Reduced rentals may be charged in the case of the poorer classes of the community.

Apart from rents, there are supplementary charges, which are recoverable from the tenants in much the same way as in France. The charges for central heating are reckoned proportionately to the rent paid, up to a limit of 40% thereof. The balance of such charges is divided up proportionately to the habitable area.

The financial side of the whole housing system is obviously somewhat complicated and cannot be described in detail here. Improvements have been made, but the fact that rents are not high enough to cover expenditure is still a handicap.

6. Private building

The Soviets have always been anxious to encourage building by private individuals, in order to alleviate the serious difficulties resulting from the nationalization of real estate. Loans granted for this purpose amounted to 119 million roubles in 1939, and to 189 millions in 1940. New building was naturally slowed down by the war, but revived again in 1943. Enquiries made at that time showed that there had been serious abuses in the employment of funds and reform was considered necessary. Nevertheless the total of outstanding loans was five times as high in 1948 as in 1941.

The conditions governing the granting of land concessions are laid down in a decree of the Presidium of the Supreme Soviet of the USSR, dated 26 August 1948. Individual concessions may range from 300 to 600 sq.m. in towns and from 700 to 1200 sq.m. in the country. Houses may be of one or two storeys with a maximum of five rooms.

The local Soviets are responsible for drawing up the concession deeds and for supervising the building and maintenance of houses by organizing appropriate inspection services.

Houses are either built by the prospective occupiers or purchased by them. Interest and redemption payments in connexion with loans are collected on behalf of the local banks by the undertaking employing the borrower.

Loans are redeemable within a period of not more than seven years and may, therefore, be classified as medium-term credit.

AN ATTEMPT TO COMPARE THE CONSTRUCTION COST OF A  
WORKING CLASS DWELLING UNIT IN DIFFERENT COUNTRIES  
(Calculated according to various indices)

From time to time the question of the cost of constructing dwellings has engaged the attention of the Housing Sub-Committee. Without wishing to enter into a detailed discussion of the subject, it seemed worth while to investigate how far the indices generally used as bases of comparison give an accurate idea of the real situation; to determine, in other words, whether comparisons based on other index-numbers would tend to confirm generally accepted notions, or would, on the contrary, partly invalidate them.

Research of this kind may aim at comparing dwellings of the same type and method of construction built in different countries, determining, for example, the number of hours actually worked by each category of building labours the amount of material used and so on.

It may, on the other hand, aim at comparing not the same type of dwelling but the type of dwelling usually built in each country to serve the needs of similar social groups, for example a comparison could be made of working-class dwellings erected by the State, by public authorities or non-profit making bodies. The comparison, in this case, would be principally concerned with finding out to what extent it is easier to provide for the financing of housing requirements (whether from public or private sources) in some countries than in others. The present study deals solely with this latter aspect of the problem.

The difficulties involved are, therefore, firstly to determine, in the relevant national currency, the construction cost of an average dwelling in each country, and secondly, to find a common unit of comparison.

The construction cost is taken as what it was in each country at the time of the enquiry.

A customary unit of measurement is the building labourer's hourly wage, the construction cost in each country being converted into man hours by dividing the cost by the hourly wage. This method, however, is inconvenient in several ways. It often creates confusion by leading some people to believe that it represents the number of hours actually taken in constructing the dwelling, although the man hour is in this case merely a unit of measurement.

In a number of countries, moreover, the basic hourly wage is not the real wage, either because the latter is actually higher or because the basic wage is increased to a greater or lesser extent by allowances of various kinds (production bonus, subsistence allowance, overtime etc.) or because the employers have to defray substantial social welfare charges for the benefit of the workers. Since the importance of these factors varies from one country to another, the building labourer's hourly wage does not appear to be a very satisfactory unit for assessing either the output of the industry or the construction cost of new housing to the users and the country as a whole.<sup>(1)</sup>

It was considered useful, with a view to arriving at a more accurate assessment, to calculate the construction cost of a new dwelling-unit in terms of various other indices,<sup>(2)</sup> such as:

- (a) the average monthly salary (including all allowances) of a postman in a large town, about thirty years of age, married, with two children;
- (b) the monthly salary (including all allowances) of a railway clerk in a large town, married, with two children;

---

(1) It should be stressed once again that it is a mistake to assume that the calculation of the cost of a dwelling in building labour man hours provides an idea of the efficiency of the building industry in the various countries. Apart from the (often gross) errors which may result from the fact that the hourly wage rate may or may not, according to the country concerned, include all forms of payment to the worker (see above), the ratio between the number of man hours and the number of labourers on the building site varies according to the type of construction, while the wage rates also differ from country to country.

(2) See Tables II and III.



- (c) the mean of those two indices;<sup>(1)</sup>
- (d) the average monthly income per head (i.e., national income divided by the total population figure);
- (e) the average monthly income per household (national monthly income divided by the number of households).<sup>(2)</sup>

While each of these indices is intrinsically imperfect, a comparison may serve to bring out certain trends.

- 
- (1) Indices (a) and (b) were chosen because the exact salary of these persons is ascertainable in every country and they have roughly the same social standing - in fact they typify the class for whom, as a rule, the new dwellings, of which the construction cost has been given for each country, are intended. By taking the mean of these two figures, any anomalies resulting from special conditions can be eliminated or reduced.
  - (2) All the occupants of one dwelling, even when not related, are considered as members of the same household, since they all use the house and share in its expenses. The national income is therefore divided by the number of existing houses. The present figure not being available, calculations are based on the most recent returns, which are generally those for 1946 or 1947. The absence of data on building and demolition subsequent to those dates is a source of error which varies in magnitude from country to country but does not appear to exceed 6 or 7%.

TABLE I

Construction Cost of an Average Dwelling in 1949/1950  
(calculated according to various indices)

Country	In national currency (thousand units)	In Swiss francs	In terms of net national income per month		In terms of a building labourer's working hours	In terms of monthly salary		
			per head	per household		of a railway clerk	of a postman	mean figure
United Kingdom	1.32	15,950	81	21	8,800	46	51	48
Denmark	30.7	19,200	92	27	8,750	41	47	44
Sweden	26	21,600	94	30	7,500	42	52	47
Western Germany	11	11,350	97	17	9,500	41	40	40.5
Netherlands	11.9	13,450	100	20	13,200	53	43	43
Switzerland	31.5	31,500	102	27	14,200	45	45	45
Belgium	275	23,650	113	37	-	50	65	58
France	1,500	18,450	118	35	18,300	54	58	56
Norway	30	18,000	119	27	7,100	60	53	56.5
Italy	2,000	13,800	181	40	13,050	44	69	58
Finland	1,231	23,000	185	39	16,800	76	72	74

The countries are listed in ascending order of net national income per month per head.

For sources and methods of calculation, see in fine.

The indices have been calculated in 1949 values, except those for the postman's monthly salary, which is based on 1950 values in terms of national currency rates prevailing at that time; and for the United Kingdom and Western Germany, where the index for the railway clerk's salary is based on 1950 values.

In 1949-1950 the costs calculated in terms of the average monthly salaries of a postman and a railway clerk appeared to be fairly similar, except for Finland (74 months). The average works out at about 50 months; the widest deviations from that mean being 40 months in Western Germany<sup>(1)</sup> and 58 months in Belgium and Italy. In the case of five countries (Denmark, Switzerland, Sweden, United Kingdom and Netherlands), the costs work out at between 44 and 48 months, while in the case of four others - France, Norway, Italy and Belgium - they are substantially higher, standing at 56-58 months.

Again, setting aside the case of Finland, and also that of Italy, a consideration of the average monthly income per head yields a similar result, the proportionate differences being almost identical. The average is about 102 months, the figures ranging from 81 for the United Kingdom to 119 for Norway. A group of six countries have between 81 and 102 months: the United Kingdom (with an especially low figure), Denmark, Western Germany, Netherlands, Sweden and Switzerland; three between 110 and 120 months: France, Norway and Belgium; and two, Italy and Finland, more than 130 months, an altogether exceptional figure. Here the differences in the order, which are substantially the same as with the first index, appear to depend on the level of national income and the average size of the family.

When the indices in terms of the average income per household are used, the Finnish and Italian anomalies disappear. The average is about 30 months, the figures ranging from 17 months for Western Germany to 40 for Belgium and Italy. The divergencies are thus somewhat greater than in the two former cases.<sup>(2)</sup>

---

(1) It should be noted that Western Germany seems to be the only country where the standards laid down for working-class housing are well below the pre-war standards (see Part I, Chapter I).

(2) See footnote (2) on previous page, on the method of determining the number of "households". Though it is impossible, in general, to ascertain the precise number of new dwellings placed at the disposal of the population, less dwellings demolished, it nevertheless appears that, given the number of newly-erected dwellings for each country, the actual discrepancy may be smaller than might be thought.

Western Germany, the Netherlands and the United Kingdom have the lowest figures - between 17 and 21 months. Norway, Denmark, Switzerland and Sweden between 27 and 30; while France, Finland, Belgium and Italy - the same countries as before, apart from Norway - have the highest with between 35 and 40 months. In relation to the preceding indices, the costs in the countries with the greatest density of housing occupation (Western Germany, Finland, Italy, Netherlands) are proportionately smaller than in the other countries. The difference as compared with the previous order of rank is therefore attributable, in particular, to the marked disparity between the various countries as regards the number of children per family.

It is interesting to note that, with two exceptions, the same order of countries results when construction costs are converted into Swiss francs. The exceptions are Switzerland itself, where the cost of dwelling units is proportionately much higher and Italy, where it is much lower. The cost in France is proportionately lower, but only slightly so.

Finally the classification arrived at when a building labourer's working hours are taken as an index is completely different from that obtained above. The figures range from 7,000 hours in Norway to 18,000 in France, the average being just under 12,000 hours. Two groups stand out: one is composed of Norway, Sweden, Denmark, the United Kingdom and Western Germany, where the figures range between 7,000 and 9,500 hours, and the other of Italy, Netherlands, Switzerland, Finland and France, where they exceed 13,000 hours. As has already been pointed out, the data yielded by the investigation do not appear to be homogeneous, and many difficulties remain to be solved before reliable data can be obtained from this index.

In drawing conclusions, it must first be remembered that if the use of multiple indices to some extent eliminates the errors which would result from using one or other of them taken separately, correct results can be obtained only insofar as the dwelling costs in national currency answer to the facts. From this chapter, then, as from the others, only the experts of the various countries can draw reliable conclusions. All that can be done here is to make objective comparisons which

will focus their attention on various points. No attempt can be made to pass judgment on the results obtained, still less on the policy followed. Nevertheless, it seems that certain conclusions may not be without value, since it would be astonishing if the same kind of mistakes had been made for every country. With these reservations, it appears to be possible to put forward the following assumptions:

(a) The construction cost of a working-class dwelling unit corresponds, on average, to about 50 times the monthly income of the prospective occupants, assuming the family to be in receipt of no other income than wages and family allowances. In some countries the figure is lower, but does not drop below 40 months. In all countries, therefore, it seems difficult for the financial balance to be achieved without assistance from the public authorities; and the universal importance of such assistance will be illustrated in the following chapter. It may be pointed out, by way of example, that by adding to the cost of construction, the cost of the building site and the financial charges involved (loans etc.) the total sums required are equivalent, at a minimum, to an annual payment of three months' income in the most highly favoured country and  $3\frac{1}{2}$  months on an average, on the assumption that the total sum was borrowed at a rate of 5%, repayable in 30 years. Maintenance costs, taxes and all other charges on a house should of course, be added each year to this annual payment.

(b) The variation in the cost of dwelling units built to meet similar though not identical needs in different countries is probably smaller than is sometimes thought. Costs appear to be lowest in Western Germany (where the standards imposed are particularly low), and to be rather higher than elsewhere in Belgium, Finland, France and Italy. It would be interesting to ascertain to what extent the apparent differences depend on the standards imposed for the materials used and the methods employed and whether low costs are not very speedily offset by higher maintenance expenses or rapid depreciation.

(c) The situation in 1938 appears to have been different. In every country, except Belgium, Italy and Switzerland (and for Sweden in the case of certain

indices), the figures were lower than in 1949/50. The difference, generally speaking, is quite pronounced. Thus, in most countries, the average dwelling now costs more than before the war, either because standards have risen or because construction costs have increased more rapidly than national income. In some cases, the construction costs obtaining in 1938 must have enabled a large proportion of the population to meet their housing commitments without special monetary assistance. On this point, the enquiry merely confirms the generally accepted view.

TABLE II

Construction Cost of an Average Dwelling in 1938  
(calculated according to various indices)

Country	In national currency (thousand units)	In Swiss francs	In terms of net national monthly		In terms of a building labourers working hours	In terms of monthly salary		
			per head	income per household		of a rail- way clerk	of a postman	Mean figure
United Kingdom	0.380	8,125	46	13	-	-	29	-
Netherlands	3.100	7,450	70	16	7,200	27	25	26
Denmark	11.100	10,500	79	23	6,100	26	36	31
France	68.000	8,150	95	30	13,800	39	51	45
Switzerland	18.000	18,000	105	28	16,650	44	49	47
Sweden	14.000	15,250	105	32	-	41	51	46
Norway	15.000	15,900	146	37	6,900	60	-	-
Finland	14.000	10,700	166	35	20,300	61	61	61
Italy	55.000	12,650	228	53	23,500	80	50	65

The countries are listed in ascending order of net national income per month per head.

For sources and methods of calculation, see in fine.

## SOURCES AND METHODS OF CALCULATION

### National income

The figures used are those of the net national income at factor cost, given

- for 1938 in "The Economic Survey of Europe in 1949"
- for 1950 in "The Economic Survey of Europe in 1950"

### Total population

For the year 1938 the figures are taken from "European Housing and Building Statistics" (Document IM/HOU/33 of 15 March 1951) and for the year 1950 from the "Monthly Bulletin of Statistics" (Statistical Office of the United Nations).

Several corrections have, however, been made on the basis of information supplied by the various countries or on account of divergencies on points of detail. These corrections were necessary because certain of the statistics contained too small a number of significant figures.

### Number of households

The number of existing dwellings for the pre-war and post-war periods alike has been taken as the number of households. The unit dealt with, therefore, is not the family but the group of persons living in the same house.

The figures are taken from the document "European Housing and Building Statistics" (Document IM/HOU/33 of 15 March 1951). For the post-war period, it has not been possible to bring up to date the available information, much of which is several years old, and it is not known how many of the new buildings were additions to, and how many were merely replacements of existing housing. This difficulty slightly falsifies the conclusions. The resultant margin of error does not, however, appear to amount to more than 10%, and may be less in some cases; it does not exceed the discrepancy which might have resulted from other sources of error.



### Parity of the Swiss Franc

The parities given for the Swiss franc are the official exchange rates for December 1949, i.e.:

Belgian franc .....	0.086	Swedish krona .....	0.83
French franc .....	0.0123	Lira .....	0.0069
Guilder .....	1.13	Finmark .....	0.0187
Danish krone,.....	0.626	German mark .....	1.03
Norwegian krone .....	0.6	Pound sterling .....	12.08

### Hourly earnings of a building labourer

Calculations are based on information supplied by various countries. This information relates to the wages of unmarried workers.

The figures are as follows (in national currencies):

	1938	1949		1938	1949
United Kingdom (shillings)	..	3	Netherlands <sup>(a)</sup> (guilders)	0.43	0.90
Western Germany (marks)	..	1.157	Italy <sup>(b)</sup> (lire)	2.34	153.1
Denmark (kroner)	1.81	3.51	Norway (kroner)	2.18	4.23
Finland (marks)	5.62	73.35	Sweden (kronor)	..	3.45
France (francs)	4.92	82	Switzerland (francs)	1.08	2.22

(a) Semi-skilled worker

(b) Married worker with three dependent children

Postman's monthly salary

The figures refer to the salary (inclusive of all allowances and especially family allowances) of a married postman with two dependent children, living in a large town. Whenever the full scale of salaries was known, the amount earned by a postman of about 30 years of age was selected. To ensure that the families considered should be inhabitants of comparable towns, choice has been made of the capital city in the case of small countries, and of a large town other than the capital city in the case of large countries.

Subject to the reservations indicated below, calculations have been based on information provided during the enquiry. The salaries are as follows (in national currencies):

	<u>1938</u>	<u>1950</u>
United Kingdom <sup>(1)</sup>	13	25
Western Germany <sup>(2)</sup>	-	275.5
Belgium <sup>(3)</sup>	-	4,567
Denmark	309	654
Finland <sup>(4)</sup>	1,875	20,361
France <sup>(4)</sup>	1,340	27,350
Netherlands <sup>(5)</sup>	123.36	249.84
Italy	690	36,140
Norway <sup>(6)</sup>	-	580
Sweden	274	513
Switzerland	364	725

- (1) Information provided by an enquiry conducted by the Universal Postal Union. The figures correspond to the salary of a first-class postman in the provinces earning 58/6d. in 1938 and 112/6 in 1950, in which year he received an extra 5/- a week from the State in the form of children's allowances.
- (2) Information provided by personal enquiry.
- (3) Information provided by the enquiry. It should be noted that the figures given by the Universal Postal Union are slightly lower: according to the latter figures, the Copenhagen maximum in 1938 was 306 kroner and in 1950, 621.
- (4) Information provided by the enquiry. For 1950, the figure given by the Universal Postal Union is slightly lower - 26,269 francs.
- (5) Information supplied by the Universal Postal Union.
- (6) Information supplied by the Universal Postal Union. It should be noted that to the salary of 474 kronor has been added the sum of 43 kronor to cover the family allowance given by the State to families with two children. For an unmarried man, the figure may be taken as being slightly higher, in the region of 485 kronor.

### Railway clerk's monthly salary

The figures relate to the salary (inclusive of all allowances and especially family allowances) of a railway clerk, married, with two dependent children, living in a large town. It was originally intended to take the salary of the engine-driver of an express train as the index of comparison, but it became evident during the course of the enquiry that the payment of substantial bonuses, varying according to country and period, might invalidate the comparison.

Subject to the reservations indicated below, the calculation has been based on the results of an enquiry carried out, at the request of the Rapporteur, by the Transport Division of the Economic Commission for Europe. The salaries are as follows (in national currencies):

	1938	1949		1938	1949
United Kingdom <sup>(1)</sup>	-	28	France <sup>(4)</sup>	1,730	28,000
Western Germany <sup>(2)</sup>		267.5	Netherlands	116.87	226.38
Belgium	1,517	6,034	Italy <sup>(5)</sup>	1,100	45,205
Denmark <sup>(3)</sup>	429.5	753	Norway	250	500
Finland	1,855	16,253	Sweden <sup>(6)</sup>	345	622
			Switzerland	407.9	633.5

- (1) To the figure supplied by the Transport Division, 5/- per week has been added to cover the family allowance paid by the State.
- (2) Information provided by personal enquiry.
- (3) Information furnished during the enquiry.
- (4) For 1949, the Transport Division supplied the slightly higher figure of 28,300 francs.
- (5) Information furnished during the enquiry. The Transport Division gave lower figures; 850 lire in 1938 and 41,900 lire in 1949.
- (6) To the 1949 figure provided by the Transport Division 43 kroner have been added to cover family allowances paid by the State.

Average cost of building a dwelling unit

The costs considered here are those supplied in response to the enquiry. Generally speaking, they may be taken as referring to a dwelling unit occupied by a family of four (father, mother and two children), due allowance being made for the standards applied in the country concerned.

It should be noted that the 1938 and 1949/50 dwelling units are not, generally speaking, identical. Not only have building methods progressed but housing standards have improved. The dwelling units considered in each period, however, are those occupied by families on the same social level.

Months

230

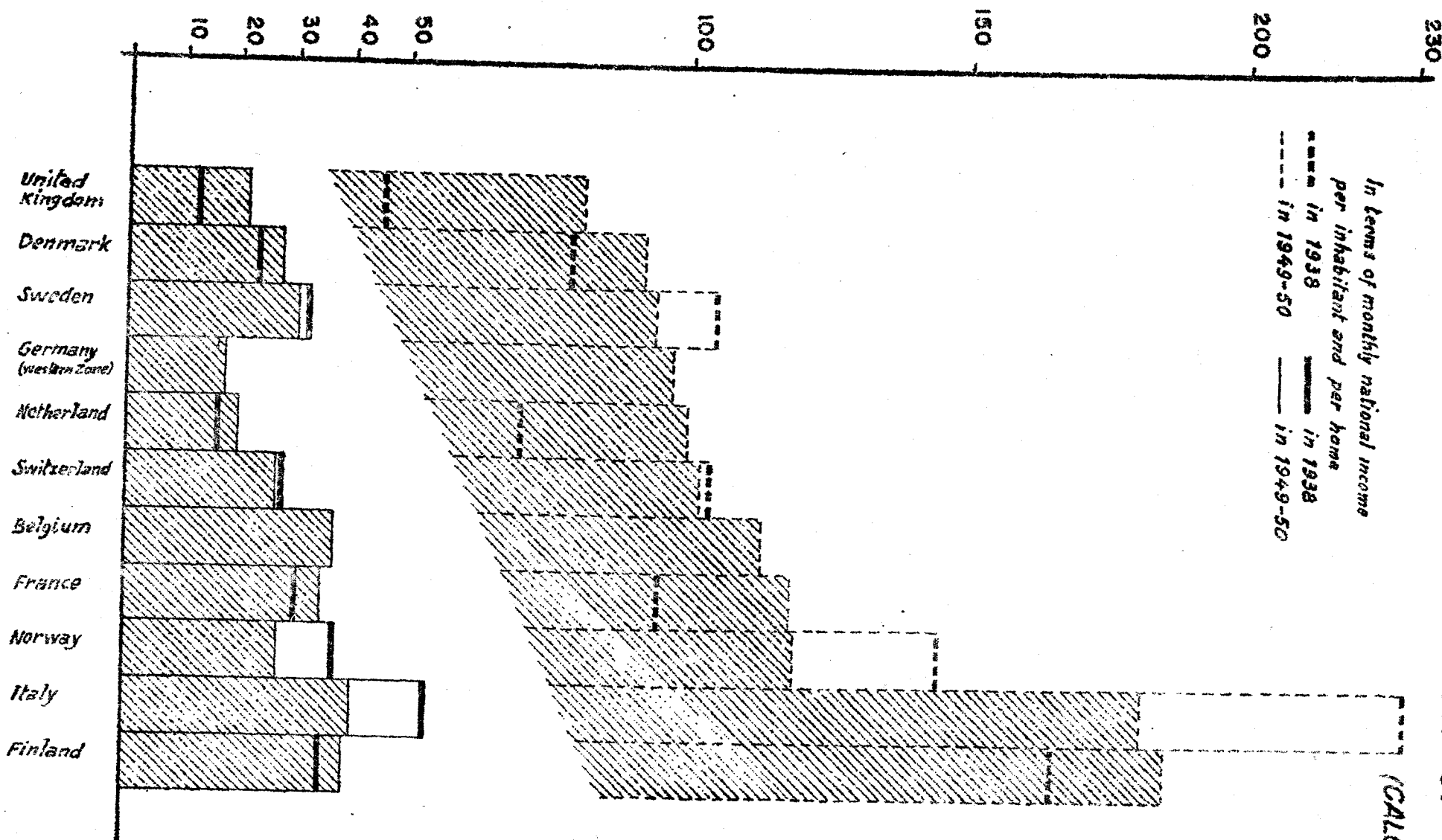
# COST OF CONSTRUCTION OF AN AVERAGE DWELLINGS IN 1938 AND 1949-50

IM HOU/W.P/1.11.

In terms of monthly national income  
per inhabitant and per home

in 1938  
in 1949-50

(CALCULATED ACCORDING TO VARIOUS INDICES)



Months

100

20,000

18,000

16,000

14,000

12,000

10,000

8,000

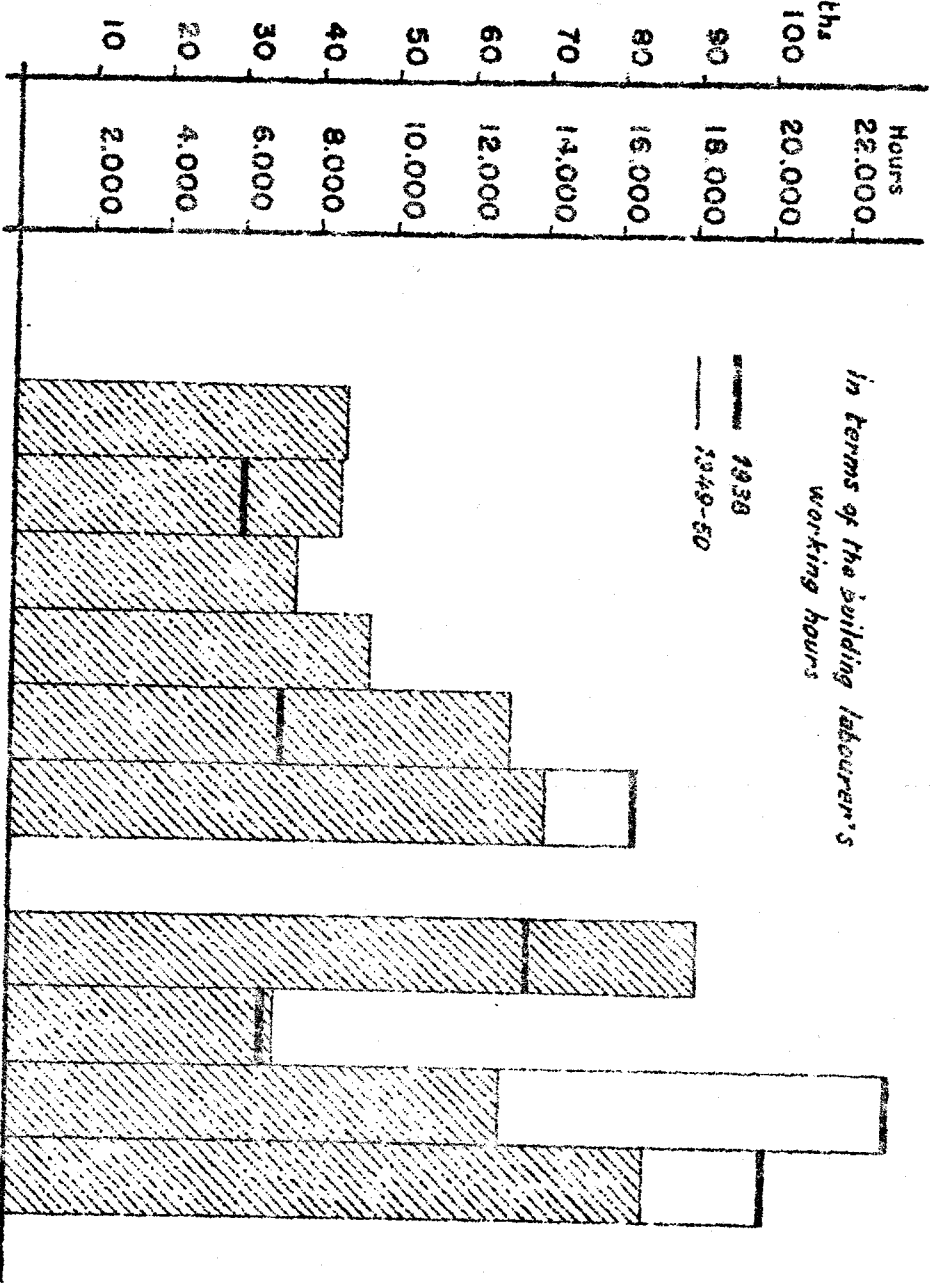
6,000

4,000

2,000

In terms of the building labourer's  
working hours

1938  
1949-50



Months

80

70

60

50

40

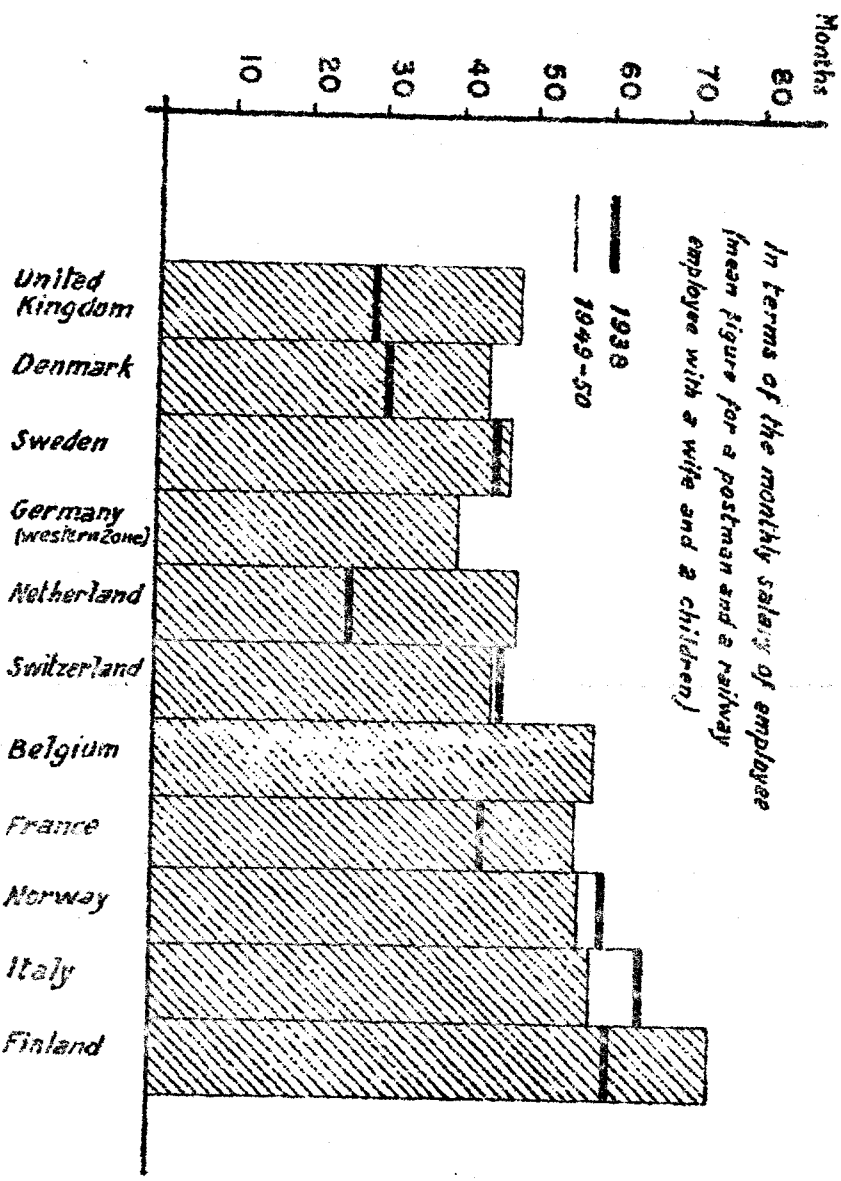
30

20

10

In terms of the monthly salary of employee  
(mean figure for a postman and a railway  
employee with a wife and a children)

1938  
1949-50



AMOUNT OF ASSISTANCE PROVIDED BY THE PUBLIC AUTHORITIES  
FOR THE FINANCING OF HOUSING IN 1949

(Preliminary Study)

It is extremely difficult to compare the amount of assistance provided by the public authorities for housing in the various countries, in view of the wide differences in their administrative structures and the multiplicity of the financial methods adopted.

In many instances, it is not easy to decide whether a particular organization should be regarded as a public or a private body. In the case of France, for example, the Associations Syndicales de Reconstruction have been classed as public bodies in view of their status in law despite the fact that they confine themselves to building on behalf of private owners of war-damaged houses, and do not retain ownership of the dwellings built by them; on the other hand, the nationalized undertakings (railways, coal-mining, electricity) and the Crédit Foncier de France, a semi-public body, have not been included. The municipal public utility societies in Sweden, although apparently possessing private status, have been classed as public bodies. The data given in the present study having been supplied at the time of the enquiry, it is possible, and even probable, that the experts consulted have not always interpreted the questionnaire in the same sense, and this may have led to lack of uniformity and error.

A similar difficulty also arises in connexion with the classification of the various forms of assistance under the three headings: loans, subsidies and direct building. Sweden, for example, makes disbursements which are not repayable as things stand at present, but which may become redeemable - and even interest-bearing - in the future should the position of the owner-beneficiaries show an improvement; and these disbursements may be regarded as subsidies (as in Table III) or as loans.

Finally, the very multiplicity of the methods adopted and the differences in administrative and financial structure in the various countries have made it necessary to restrict the study firstly to the year 1949, and secondly to a comparison between the total amount expended on housing by the public authorities and total national expenditure on housing in that year. Hence the balancing of building or housing accounts and the extent to which assistance from the public authorities helps to ensure balanced accounts are questions not touched upon in

this study. Other points left out of account are: the part played by the population itself in providing its own housing; the tax relief granted in certain countries; and other forms of assistance not involving immediate disbursements (such as guarantees of settlement in connexion with private loans). Bounties in the form of annual payments (interest reductions, accommodation allowances etc.) are covered only insofar as they form part of the payments made in 1949.<sup>(1)</sup> In short, the aim has merely been to give some idea of the extent to which the financing proper has been covered out of public funds.

Furthermore, there have been fairly radical changes, both before and since 1949, in the policy pursued by the public authorities in certain countries. Some of the figures or percentages given now require revision.

These various limiting factors must be borne in mind when interpreting this first attempt at a comparative study, which cannot claim to do more than provide a starting point for subsequent investigations and indicate the order of magnitude of the part played by the public authorities.

In every country, even in those unaffected by the war, housing was financed to a considerable extent out of public funds in 1949.

The proportion of housing finance accounted for by public funds seems to have been: 22.5% in Switzerland slightly more in Sweden; between 30 and 40% in Denmark, Italy and Western Germany; over 45% in Belgium; between 60 and 70% in France and Norway; and over 75% in the Netherlands and the United Kingdom.<sup>(2)</sup>

Such a classification does not, however, give more than a partial idea of the efforts made by the public authorities. Expressed as a percentage of national income the public authorities' contribution appears in a very different light.<sup>(3)</sup> Reckoned in these terms it is almost as high in Switzerland as in western Germany; higher in Sweden than in Belgium; and higher in Norway than in the United Kingdom and the Netherlands.

(1) Thus only one annual payment is taken into account, despite the fact that assistance by the public authorities extends over several years. It is true that, retrospectively, account is taken of annual payments in respect of previous years' operations; but these payments do not appear to represent a sufficiently large sum to invalidate the conclusions which may be drawn from the percentages given.

(2) See Table III.

(3) See Table IV.



Assistance by the public authorities takes several forms. In France, the Netherlands, and the United Kingdom, and to a lesser degree in Sweden, it has largely consisted of building work carried out direct by local authorities or public bodies and made possible in many cases by State loans or subsidies. More than half the housing operations in the United Kingdom, and more than a third in France and the Netherlands fall into this category. On the other hand, the amount of building done direct by the State is everywhere insignificant, except in France, where it represents 16%.<sup>(1)</sup>

With regard to outright subsidies granted to private individuals and builders, it is found that the payments made by local authorities and public bodies other than the State represent only an insignificant part of total financing, except in Switzerland (14%) (However, the local authorities often play an important part in providing guarantees.). On the other hand, State subsidies, which in some cases are tantamount to compensation for war damage, are particularly high in France (47%) (if the subsidies granted to public bodies are included - otherwise the figure would be 27%) and over 10% in Belgium, the Netherlands and the United Kingdom.

Finally, in four countries - Belgium, Denmark, the Netherlands and Norway - the State or semi-State bodies have lent individuals sums representing over one-quarter (in Norway, over one-half) of the total amount devoted to housing.

Assistance by the public authorities appears even more considerable if only the expenditure on new building is considered.<sup>(2)</sup> The proportion financed out of public funds then ranges from 30% in Switzerland to nearly 85% in the Netherlands.

State aid is seen to be even more preponderant when a comparison is made for a given year between the number of new dwellings built (wholly or in part) with some form of assistance from the public authorities and the total number of dwellings erected. Generally speaking, it may be said that three-quarters of the dwellings completed during the year or in course of construction at the end of the year were assisted by the public authorities - the proportion even rising to over 95% in the Netherlands and the United Kingdom.

---

(1) It should be noted that in the case of France the building work done by the State represents the final stage of a programme, and has since been gradually declining.

(2) See Table V.

Table III  
CONTRIBUTION OF THE PUBLIC AUTHORITIES TO THE FINANCING OF HOUSING IN 1949  
(as a percentage of total expenditure on housing)

Country	State Assistance				Assistance by local authorities or public bodies					Combined total (after allowing for duplication)			
	Direct Building	Subsidies	Loans	Total	Direct Building	Subsidies	Loans	Total		Direct Building	Subsidies	Loans	Total
									after ded- uction of State ass- istance				
Switzerland	0	5	3.5	8.50	0	13.75	0	13.75	13.75	0	18.75	3.50	22.25
Sweden	0.25	3.75	9	13	18.25	0.25	0	18.50	13.50	18.30	4	4	26.50
Denmark	0	1.25	32.75	34	0.25	0	0	0.25	0.25	0.25	1.25	32.75	34.25
Italy	1	1	6.25	8	15	0	11	26	26	16	1	17.25	34.25
Western Germany	-	-	-	31.50	-	-	-	5.50	5.50	-	-	-	37
Belgium	0	12.75	0	12.75	7.75	0	26.75	34.50	34.50	7.75	12.75	26.75	47.25
Norway	1	6.50	52.5	60	0	3.25	0	3.25	3.25	1	9.75	52.50	63.25
France	16.50	47.25	5	68.75	24	0	0	24	0	40.50	27.75	0.50	68.75
Netherlands	3	14.50	9.50	27	30.50	0.75	17.5	48.75	48.75	33.50	15.25	27	75.75
United Kingdom	1.50	11.75	60.50	73.75	60	2.25	0	62.25	13.50	61.50	14	0.50	76

The figures have been rounded off to the nearest 0.25%. They have been worked out from the data supplied by the experts during the enquiry in respect of total expenditure on housing and the total amount and distribution of the assistance provided by the public authorities.

Table IV

Contribution of the Public Authorities to the Financing of Housing in 1949  
7 (°/oo of national income)

Italy	9
Switzerland	13
Western Germany	16
Denmark	16.5
Belgium	19.5
Sweden	20
France	21
United Kingdom	33
Netherlands	36.5
Norway	41

The figures used for national income are those published in  
"The Economic Survey of Europe in 1950"

Table V

Amount of assistance given by the public authorities for the construction of  
new dwellings in 1949

Country	Proportion of total expenditure on new construction financed by the public authorities (per cent)	Number of new dwellings built with the assistance of the public authorities as a percentage of the total		
		Completed in 1949	Under construction at end of year	Average
Switzerland	30	57 <sup>(a)</sup>	-	-
Sweden	37	77	76	77
Western Germany	45	71	-	-
Denmark	53	68	83	75
France	68	73	74	74
United Kingdom	78	99	99	99
Norway	80	79	79	79
Netherlands	84	97	97	97

(a) This figure represents the percentage in relation to the number of dwellings made available for occupation (including conversions and temporary dwellings), and not merely to the number of new permanent dwellings.

# PART PLAYED BY PUBLIC AUTHORITIES

(STATE, LOCAL AUTHORITIES AND OTHER PUBLIC BODIES)

## IN THE FINANCING OF HOUSING OPERATIONS CARRIED OUT IN 1949

(IN THOUSANDTHS OF THE NATIONAL INCOME)

